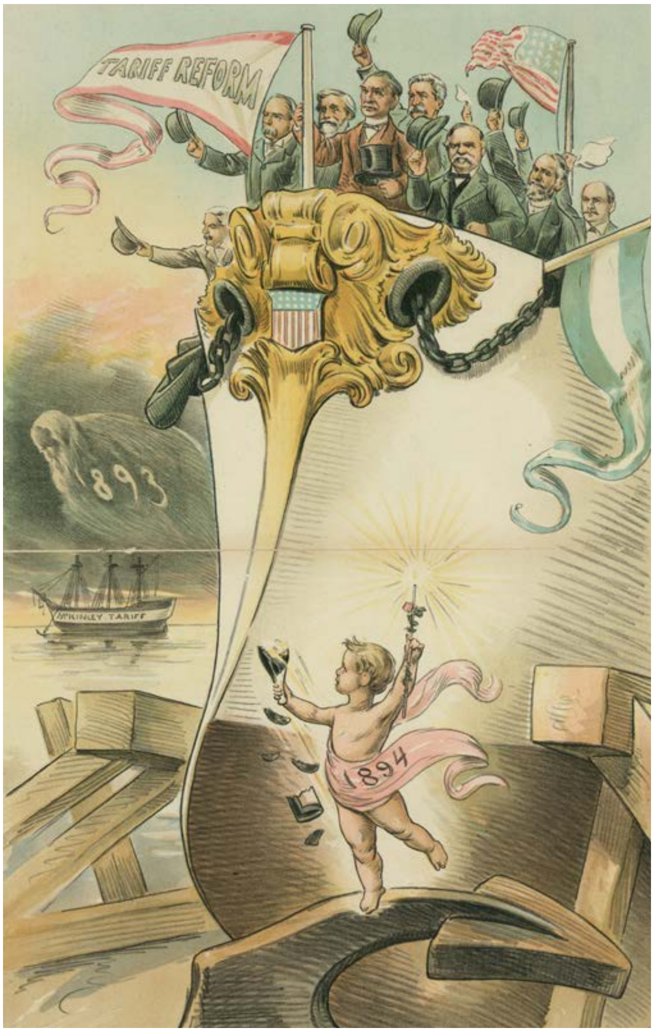
FINANCIAL HISTORY

The magazine of the Museum of American Finance



From Tariffs to Taxes

A Tale of Two Panics: 1907 and 2008

The Legacy of Carter Glass

ISSUE 129 | SPRING 2019

FINANCIAL HISTORY

The magazine of the
Museum of American Finance

*in association with
the Smithsonian Institution*

Issue 129 • Spring 2019
(ISSN 1520-4723)

Financial History is the official membership magazine of the Museum of American Finance.

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Smithsonian Affiliate

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ON THE COVER

1893 *Puck* cartoon titled "Launched at Last —Good Luck to Her!" showing a cherub labeled "1894" smashing a bottle of champagne as he launches a large ship under the banner "Tariff Reform" with Grover Cleveland and members of his cabinet standing on the bow waving their hats. See related article, page 20.

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MoAF Exhibits "Pop Up" Around the City

Message to Members

David J. Cowen | President and CEO

It has been a busy Spring at the Museum, with more than a dozen public programs held so far this year. A highlight was our recent event with Nobel Laureate Joseph Stiglitz, who spoke to a full house on April 24, in conversation with Columbia University Professor Bruce Greenwald. It was another successful program with our Evening Lecture Series partner, the Fordham University Gabelli Center for Global Security Analysis. We are already planning evening programs for the Fall, with speakers including economist and historian Niall Ferguson and financial journalist Jim Grant, plus our rescheduled fireside chat and panel discussion on corporate sustainability.

The new MoAF Events Membership program, which launched in March, provides our members with free access to all of our public programs, with the recently added benefit of one walking tour per year. Members at the MoAF Events Plus level also receive free access to thousands of other museums around the country via the North American Reciprocal Membership (NARM) Program. Information on our new membership levels and benefits can be found at www.moaf.org/support.

As we continue our search for a new permanent home, we are busy opening "pop-up" exhibits around New York City, and we are exploring the possibility of opening traveling exhibits in other cities as well. On May 21, we will open "Out of the Vault: Bubbles and Crashes," a display that will highlight many of the significant financial bubbles, crashes and panics that have shaped American history (see related article, page 7). The display will be on view at the New York Public Library's SIBL branch (188 Madison Avenue, at 34th Street) through August 31.

Other "pop-up" displays this Spring and Summer are planned for the New York Municipal Archives and Federal Hall National Monument. To receive notifications of our upcoming exhibits, events and educational programs, sign up for our e-mail list at www.moaf.org/newsletter. $

MoAF President David Cowen introduces Nobel Laureate Joseph Stiglitz.

Joseph Stiglitz, in conversation with Columbia University Professor Bruce Greenwald, at the April 24 MoAF/Fordham Gabelli Center event.

MoAF Launches "Where Are They Now?" Blog

On March 13, the Museum launched a companion blog for its "Where Are They Now?" Series, which traces the histories and origins of 207 of the underwriters of the 1956 Ford Motor Company IPO. "Where Are They Now?" is a collaboration between historian Susie J. Pak and the Museum of American Finance, and the research for this series has been generously funded by Charles Royce of The Royce Funds. The blog can be accessed from the Museum's website (www.moaf.org) or directly at wherearetheynowblog.blogspot.com.

In the mid-20th century, there were hundreds of investment banks and brokerage houses across the United States. Starting in the 1960s, these firms began to disappear. This change has not gone unnoticed, particularly by members of the financial community, who experienced this change in their lifetimes.

In 2012, when *Barron's* published an article titled "Where Have You Gone, Blyth Eastman, Dillon Paine Webber Peabody?," its sentiments echoed those of many, who felt as though they had lived through a "Darwinian evolution" of sorts. *Barron's* point of reference for this change was the fate of the syndicate that underwrote Ford Motor Company's historic initial public offering (IPO) in 1956—a group of more than 200 top banks from the United States and Canada.

In 2016, MoAF began a research project to investigate what happened to the firms of this historic syndicate. Starting with the firms listed on the Ford Motor Company IPO tombstone, the project reconstructs a genealogy of each bank focusing on its origin and demise. The project studies the social origins of the founders, when the family of founders ceased to be members of the firm, when the firm became a corporation and/or went public, as well as when and why it disappeared. The narratives reveal overarching patterns regarding the consolidation and change in the American banking community in the 20th century.

Articles from the "Where Are They Now?" series have been published in every issue of *Financial History* magazine since Fall 2017. See page 32 for Susie Pak's latest "Where Are They Now?" article on the history of Bache & Co. (founded in New York in 1891). $

Teens Learn About Personal Finance at MFA Boot Camp

In February, the Museum launched the Museum Finance Academy (MFA) Boot Camp, a motivational finance experience for high school sophomores and juniors, with sessions offered during Winter and Summer breaks. More than 20 students participated in the first session of the boot camp, and all received certificates of completion.

MFA Boot Camp is similar to one of the Museum's most popular educational programs, the Museum Finance Academy, but geared towards slightly younger students and offered over a shorter period of time. Founded by the Museum in 2010, the Museum Finance Academy is an after school program for high school juniors and seniors that teaches students to aspire to financial independence, develop an appreciation for savings, make financial goals and learn to avoid scams. Students who participate in this program learn the life cycle of spending and saving, which is vital for students as they leave high school and move on to college or a career. In addition to engaging, interactive classroom experiences, the curriculum includes field trips to places of interest in the world of finance, including the New York Stock Exchange and the Federal Reserve Bank of New York. The program also uses the Museum's own extensive collections and in-house expertise to teach the students certain financial lessons.

Currently, the Museum offers both the Museum Finance Academy and MFA Boot Camp free of charge to all participating students. More than 106,000 students have participated in the Museum's educational programs since 2010.

The next session of the MFA Boot Camp will be held August 5–8, from 10:00 a.m.–2:30 p.m., with a 30-minute break for lunch. Registration will open in late May at www.moaf.org/mfa. $

UPCOMING EVENTS CALENDAR

May 9 Lunch and Learn Series: Andrew Browning on *The Panic of 1819: The First Great Depression*. Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. 48 Wall Street, 5th Floor. General admission $5; members and students free.

May 21 Lunch and Learn Series: Brent Goldfarb and David Kirsch on *Bubbles and Crashes: The Boom and Bust of Technological Innovation*. Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. NYPL Business Library (SIBL), 188 Madison Avenue (at 34th Street), Room 018. This event is free and open to the public. View the Museum's special display on the topic of bubbles and crashes at this location through August 31.

May 25 Walking Tour: George Washington's New York. 11:00 a.m. – 12:30 p.m. Tour meets outside 48 Wall Street. $15 per person. Members receive one free walking tour per year.

Jun 15 Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. Tour meets outside 48 Wall Street. $15 per person. Members receive one free walking tour per year.

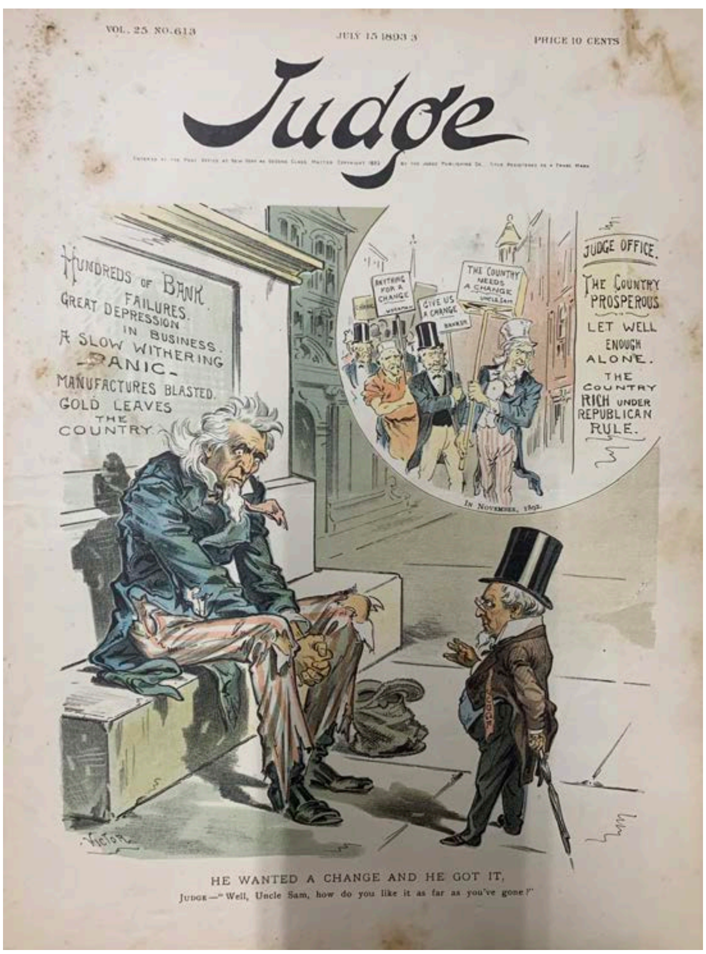
For more information or to register online, visit www.moaf.org/events.

MoAF to Present "Bubbles and Crashes" Program and Display in Partnership with the New York Public Library

On May 21, the Museum will present a lunchtime program with Brent Goldfarb and David A. Kirsch, authors of *Bubbles and Crashes: The Boom and Bust of Technological Innovation* [See related article, page 17]. The program will be co-presented with the New York Public Library and will be held at the library's 34th Street location (188 Madison Avenue, NYC), from 12:30–1:30 p.m.

Financial market bubbles are recurring, often painful, reminders of the costs and benefits of capitalism. While many books have studied financial manias and crises, most fail to compare times of turmoil with times of stability. In their book, Goldfarb and Kirsch provide new insights into the causes of speculative booms and busts by identifying an asset class—major technological innovations—that can, but does not necessarily, produce bubbles.

In conjunction with the presentation, the Museum will display several documents on the topic of historical bubbles and crashes from its collection at this location. Objects date from the 18th century to the present and include documents from the South Sea Bubble of the 1720s; the Panics of 1857, 1873, 1893 and 1907; the Great Depression of the 1930s; the Dot Com Bubble of the 1990s; and the Great Recession of the early 21st century. The display will be on view from May 21—August 31, 2019. Both the May 21 program and access to the "Bubbles and Crashes" display are free and open to the public. $



Collection of the Museum of American Finance

Judge cartoon from the Panic of 1893 titled, "He Wanted a Change and He Got It," July 15, 1893.

BROOKLYN DAILY EAGLE

And Complete Long Island News

LATE NEWS WALL STREET ★★

NEW YORK CITY, THURSDAY, OCTOBER 24, 1929.

32 PAGES

THREE CENTS

WALL ST. IN PANIC AS STOCKS CRASH

Attempt Made to Kill Italy's Crown Prince

STOCKS CRASH IN RUSH TO SELL; BILLIONS LOST

ASSASSIN CAUGHT IN BRUSSELS MOB; PRINCE UNHURT

Hollywood Fire Destroys Films Worth Millions

FEAR 52 PERISHED IN LAKE MICHIGAN; FERRY IS MISSING

PIECE OF PLANE LIKE DITEMAN'S IS FOUND AT SEA

High Duty Group Gave $700,000 to Coolidge Drive

CARNEGIE CHARGE OF PAID ATHLETES ROUSES COLLEGES

HOOVER'S TRAIN HALTED BY AUTO PLACED ON RAILS

WARDER SOUGHT TO KEEP SEA TRIP SECRET, AID SAYS

SOMERS NAMED AS HEAD OF NEW EXCHANGE BANK

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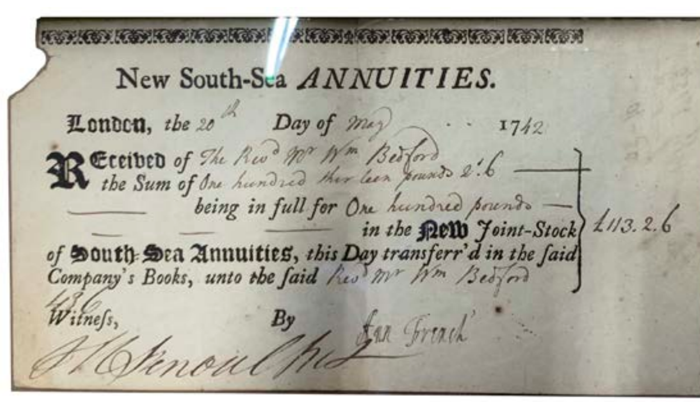
Front page of the *Brooklyn Daily Eagle* from "Black Thursday," October 24, 1929.



New South-Sea ANNUITIES.

London, the 20th Day of May 1742

Received of The Revd Mr Wm Bedford the Sum of One hundred thirteen pounds 2:6 being in full for One hundred pounds in the New Joint-Stock of South-Sea Annuities, this Day transferr'd in the said Company's Books, unto the said Revd Mr Wm Bedford

£113. 2. 6

Witness, By

Collection of the Museum of American Finance

New South-Sea Annuities receipt, dated 1742.

The Battle of Wall Street

By Sarah Poole, Collections Manager

Picketers block the 11 Wall Street entrance of the New York Stock Exchange during the "Battle of Wall Street," March 30, 1948.

On March 29, 1948, 1,100 unionized employees of the New York Stock Exchange (NYSE) and the New York Curb Exchange (later the American Stock Exchange), joined in solidarity by 500 members of the Seafarers Union, walked out of their jobs. This marked the beginning of the first and only multi-day strike in the histories of both exchanges.

The United Financial Employees Union (UFE) was founded by Merritt David Keefe in 1941. Keefe had started working on Wall Street in 1928 as a pageboy for $15 per week. After 13 years, his wages had only risen to $28 per week, and Keefe decided that his best chance for improvement would be through the negotiating power of a union. The UFE managed to win a contract with the New York Stock Exchange and organize the New York Curb Exchange before the outbreak of World War II interrupted their efforts.

After the war, Keefe and the UFE went back to work with the ultimate goal of organizing the employees of all of the Wall Street exchanges, brokerage houses and banks. Wall Street's first (and only) union drive began in August 1946. On August 14, 700 NYSE employees (98% of the workers) staged a two-hour walk out to show support for the drive in an unexpected display of strength from the union. The UFE grew to 5,000 and held majority membership at the NYSE, New York Curb Exchange, New York Cotton Exchange and Wall Street's five largest brokerage houses.

In March 1947, the UFE organized a day-long strike at the Cotton Exchange, raising tensions. However, the union's biggest struggle was with the brokerage houses, who could simply reroute their trades through other firms and render an employee strike ineffective. This led to the idea of attempting to shut down trading at the source—the NYSE. Tensions rapidly rose between the union and the exchange, but with intervention from the Mayor's office, arbitration began in April. Negotiations did not progress for nearly a year.

The NYSE strike began on March 29, 1948, and the first day of protesting was peaceful. Shortly before 9:00 am on March 30, police approached picketers near the main entrance of the exchange and asked them to move due to a court order that limited picketing in that area. Claire Johnson, a 19-year-old secretary, refused and was arrested. Her arrest sparked outrage, and picketers swarmed the police. The violent scuffle lasted only 35 minutes, but resulted in 12 picketer injuries (including two hospitalizations), two police injuries (one of which was hit by another officer who mistook him for a picketer) and 45 arrests. The fight became known as the "Battle of Wall Street."

The New York Stock Exchange refused to budge from its pre-strike offer of a $3–5 raise and would not return to arbitration. The union did not see success with any of the other exchanges, either. The exchanges had far greater financial resources than the UFE and chose to wait out the strike, which officially ended on April 30, 1948. The NYSE workers ultimately accepted the terms of the pre-strike offer, but 100 workers' positions were eliminated during the strike. The strike had failed, and Wall Street would not see another. $

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Avoiding the Maltese Falcon (Part 2): The Flitcraft Parable

By Brian Grinder and Dan Cooper

Names are important in *The Maltese Falcon*.[1] This is evident from the very beginning of the novel, when Dashiell Hammett introduces us to detective Sam Spade. "Spade" is an appropriate name for someone who makes a living digging up clues; "Sam" or Samuel was Hammett's first name. Hammett biographer Nathan Ward is convinced that Hammett put a great deal of himself into Sam Spade. He "…gave him the rooms he was living in and the streets he knew so well; added a handsome, angular face very much like his own…" In the first paragraph of the novel, Hammett writes, "He [Spade] looked rather pleasantly like a blond satan."[2] Perhaps Hammett is hinting here that there is a bit of the devil in himself, as well as in Spade.

When Miss Wonderly (aka Brigid O'Shaughnessy) shows up at the offices of Spade and Archer, Spade's secretary, Effie Perine, exclaims, "You'll want to see her anyway: she's a knockout." This is another not-so-subtle hint to the reader to pay attention to names. Hammett paints an unflattering picture of the aptly named criminal mastermind Kasper Gutman, who represents corrupt, corpulent capitalists:

> The fat man was flabbily fat with bulbous pink cheeks and lips and chins and neck, with a great soft egg of a belly that was all his torso, and pendant cones for arms and legs. As he advanced to meet Spade all his bulbs rose and shook and fell separately with each step, in the manner of clustered soap-bubbles not yet released from the pipe through which they had been blown. His eyes, made small by fat puffs around them, were dark and sleek. Dark ringlets thinly covered his broad scalp. He wore a black cutaway coat, black vest, black satin Ascot tie holding a pinkish pearl, striped grey worsted trousers, and patent-leather shoes.

Hammett's Gutman brings to mind the caricatures of capitalists and monopolists produced by Gilded Age cartoonists, such as Joseph Keppler, whose "The Bosses of the Senate" appeared in *Puck* in 1889.

Silver Screen Collection

Scene from the 1941 film, "The Maltese Falcon," with (L to R) Humphrey Bogart as Sam Spade, Sydney Greenstreet as Kasper Gutman, Peter Lorre as Joel Cairo and Mary Astor as Brigid O'Shaughnessy.

Two more names, Flitcraft and Pierce, appear in what has become known as the Flitcraft Parable. According to Harvard professor Mihir Desai in his 2017 book, *The Wisdom of Finance*, "Like in any good detective story, Dashiell Hammett's key clues to the parable are hiding in plain sight. By choosing the names Flitcraft and Charles Pierce, Hammett added layers of meaning and connected this story to finance."

Flitcraft was a well-known name among Pinkerton detectives because every Pinkerton office, according to Ward, had a copy of Allen J. Flitcraft's *Life Insurance Manual*. The name Charles Pierce has been linked by numerous Hammett experts to Charles Sanders Peirce (pronounced *purse)*, the founder of a school of philosophy known as pragmatism. Peirce realized that chance and randomness are ubiquitous in our world, but the risks brought about by such randomness can often be managed with insurance. Thus, risk and risk management are key to understanding the parable. With this in mind, consider the Flitcraft Parable.

In the middle of the novel, the action comes to an unexpected halt as Spade tells O'Shaughnessy about an incident that happened while he was working as a detective in Seattle. According to Spade, a man by the name of Flitcraft left his Tacoma real estate office to go to lunch one day and mysteriously disappeared. "He went like that," Spade said, "like a fist when you open your hand." Mrs. Flitcraft contacted Spade five years later after learning that someone had seen a man in Spokane who looked like her husband. Spade went to Spokane and found Flitcraft, who had been living there for a couple of years under the name of Charles Pierce. He owned an automobile business, and he had remarried and started a new family. Spade met Flitcraft/Pierce in his room at the Davenport Hotel in downtown Spokane, where Flitcraft told him his story.

As he was walking to lunch in Tacoma, he passed an office building that was under construction when, "A beam or something fell eight or ten stories down

and smacked the sidewalk alongside him." A piece of the sidewalk chipped off, flew up and hit his chin. The shock of nearly being struck and killed by the beam made Flitcraft question what he had assumed was a stable life. He made good money, had a wife and children, and he was able to play a round of golf once or twice a week. Now a random beam falling from the sky changed his outlook. Hammett writes:

> What disturbed him was the discovery that in sensibly ordering his affairs he had got out of step, not into step, with life. He said he knew before he had gone twenty feet from the fallen beam that he would never know peace again until he adjusted himself to this new glimpse of life. By the time he had eaten his luncheon he had found his means of adjustment. Life could be ended for him at random by a falling beam: he would change his life at random by simply going away.

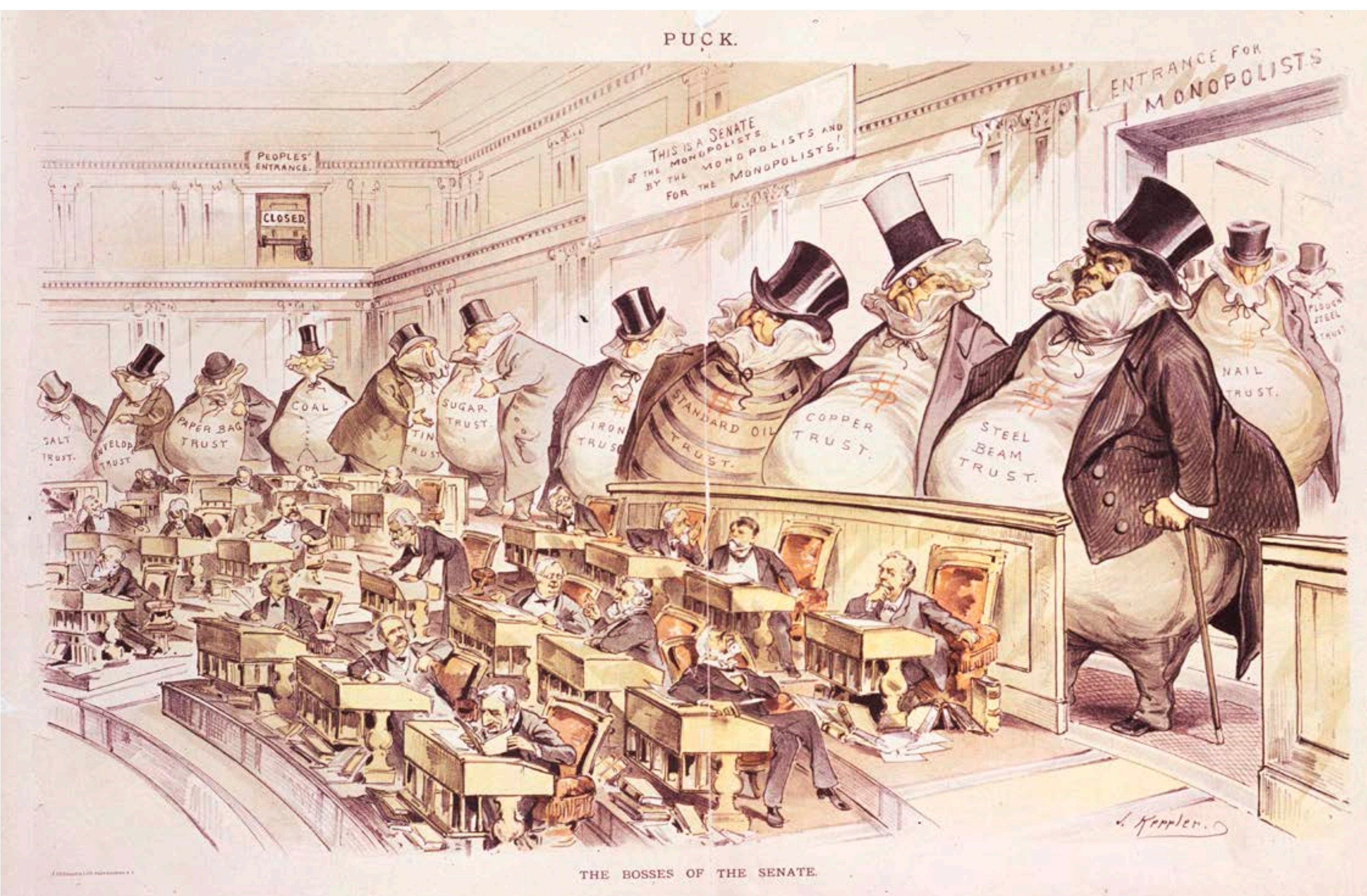
Flitcraft drifted around for a while and eventually settled in Spokane where he lived a life that was oddly similar to his old life in Tacoma. "I don't think he even knew he had settled back into the same groove he had jumped out of in Tacoma" Spade remarks, "But that's the part of it I always liked. He adjusted himself to beams falling, and then no more of them fell, and he adjusted himself to them not falling."

The Flitcraft Parable continues to be one of the most analyzed pieces of Hammett's writings, and it has been the subject of endless speculation. Nevertheless, there is near universal agreement that the parable, which ironically never made it into any of the movie versions of the book, is key to understanding *The Maltese Falcon*.

Desai points out two lessons that can be learned from the parable: (1) Chance dominates our lives[3], and (2) "as important as chance is, we just can't seem to escape our own patterns." He notes that "finance is, at its core, a way to understand the role of risk and randomness in our lives and a way to use the dominance of patterns to our advantage."

The financial aspects of the parable lead to some pertinent questions about risk. How should those inevitable random events that threaten goals and aspirations be handled? Once a person understands his or her own propensity for risk, will that person be less likely to take on too much risk?

The Flitcraft Parable teaches that Maltese Falcon-type goals can often be avoided by taking risk into account and utilizing risk management techniques when appropriate to mitigate risk. Some risks can be dealt with via insurance or options, but what



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Puck illustration titled "The Bosses of the Senate," January 23, 1889. Lithograph by J. Ottmann after drawing by J. Keppler.

about totally unanticipated beams? Should they be allowed to cause major disruptions until they no longer seem to be a threat? Or can the patterns of life be changed in constructive ways that deal with such challenges in a calm, rational manner?

When beams began falling around Brigid O'Shaughnessy, she thought she could handle them by making a deal with the devil—that "blond satan" Sam Spade. In the end, however, the devil betrayed her as he always does. A Faustian bargain is never a viable option because it inevitably leads to disappointment. The risks are simply too great. Indeed, O'Shaughnessy's quest for the Maltese Falcon ended in a prison cell because of her involvement with Spade.

Thus, two additional questions must be asked of those who wish to avoid Maltese Falcon-type goals:

1. Are you willing to make a deal with the devil in order to reach your goal(s)?
2. What will you do when beams fall? $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

Notes

1. *The Maltese Falcon* is best known as the 1941 breakthrough film noir classic starring Humphrey Bogart and Mary Astor. The movie is based on Dashiell Hammett's novel of the same name, which was first published serially in the detective magazine *The Black Mask* from September 1929 to January 1930.
2. Hammett uses the term "satan" to describe Spade two other times in the novel.
3. According to Hammett's daughter, "As a boy [Hammett] had wanted to find the Ultimate Truth—how the world is operated. And here it was. There is no system except blind chance. Beams falling."

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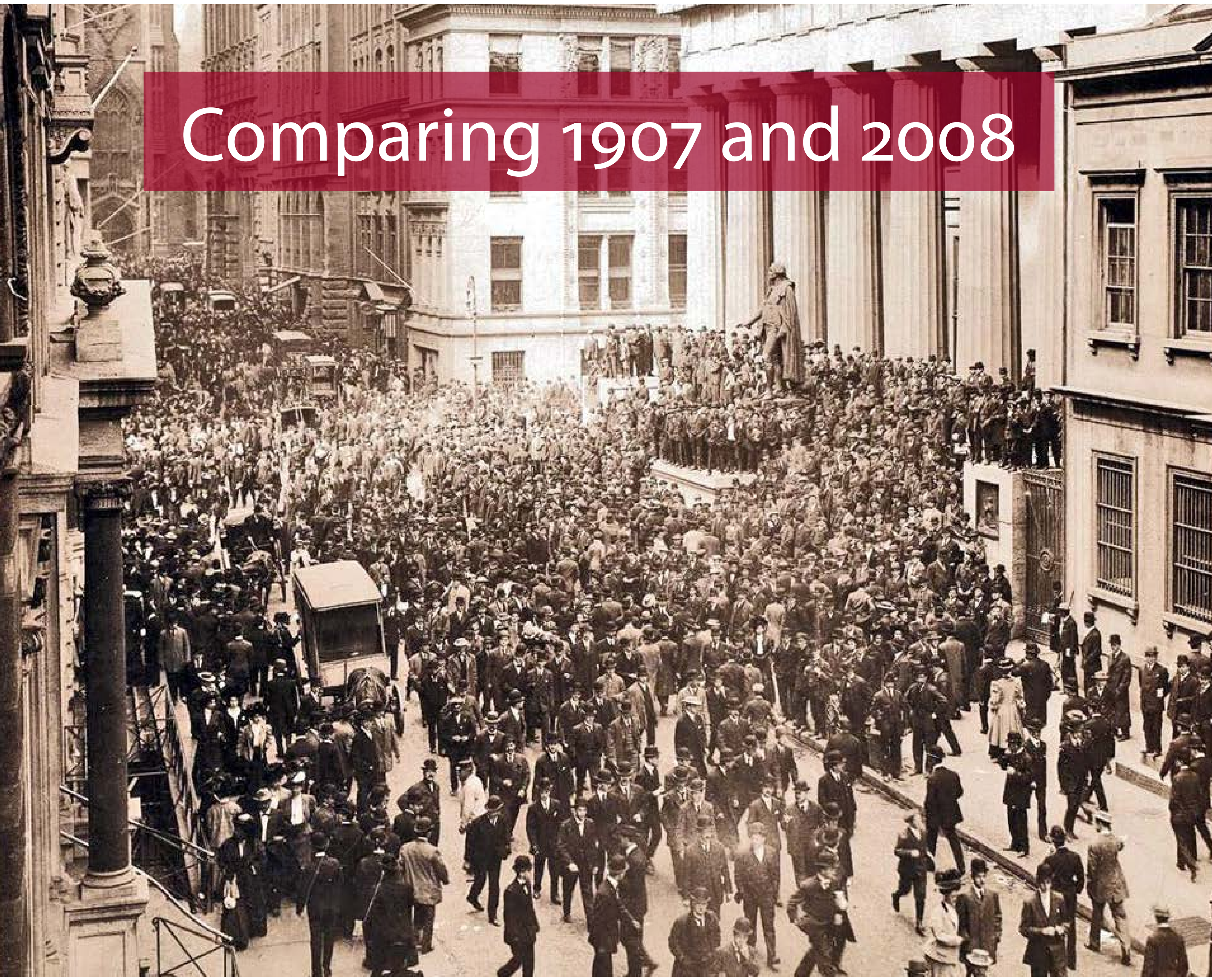
a Tale of Two Panics

Comparing 1907 and 2008



By Daniel C. Munson

Much has been written about the changes to the American financial system and the American economy resulting from the establishment of the Federal Reserve Bank in 1913. These writings are interesting, but they often devolve into attempts at second-guessing the actions of the Federal Reserve in response to various economic conditions—depressions, speculative bubbles, etc.—with the convenient perspective of hindsight.

Another way to think about the effects of the Federal Reserve System is to ask what changes it has wrought on the behavior of the nation's citizens. Do our business people behave differently because there is a central bank? This question can be approached any number of ways, but one way is to look at similar sets of economic circumstances occurring with and without the presence of the Federal Reserve and observe the behavior of the market participants.

Market panics can throw these behaviors into stark relief. In the same way that bad weather can expose the skill (or lack of skill) of ship captains and airplane pilots, bank failures and liquidity crises can throw bright light on the actions of a nation's financiers.

The panics of the late summer and early fall of 1907 and 2008 can serve. They were separated not merely by a clean century of time, but by the absence (1907) and the presence (2008) of a powerful central bank. A look back at the chaos and the action during those two panics can perhaps allow us to understand better the effects of central banking.

The facts surrounding the panics of 1907 and 2008 were different, but in precipitating features they were the same. Credit conditions were strained in October 1907 and suddenly came completely unglued when the Knickerbocker Trust, a prominent New York bank, was rumored to have a big book of business with an over-extended copper mining financier who went bust attempting to force a "short squeeze" in the shares of a company he controlled. Troubles in 2008 culminated when Lehman Brothers was sunk by a large pile of lousy mortgages and real estate investments. In 1907, J. Pierpont Morgan sent his people to rifle through the books of the Knickerbocker Trust to assess if it was salvageable with an emergency loan and, similarly, in 2008 Lehman Brothers was examined by a number of potential buyers (including J.P. Morgan Chase) in the days before its collapse.

Previous page: Wall Street during the Panic of 1907.

The suspension of operations at the Knickerbocker Trust and the bankruptcy of Lehman Brothers had similar cascading effects: there was uncertainty concerning exactly which financial institutions held the bad loans and in what amounts, and this uncertainty led to reduced levels of lending. Asset prices declined sharply as the credit necessary to finance asset purchases dried up, and banks tried to call in loans and refused to make new loans until they could assess the damage.

The difference for investors is that in 2008 the benefit of being liquid was small. Interbank overnight rates increased a few percentage points in the two weeks following the collapse of Lehman Brothers, then dropped precipitously to near zero. Margin lending rates, strictly limited in scope, barely budged. Long-dated Treasury securities, which while liquid do involve putting principal at risk, increased in value some 15–20% in the ensuing months as long-term rates declined. But, in general, those in cash and money market funds simply sat by and contented themselves with the thought that they hadn't lost any money.

In 1907, however, a liquid investor unwilling to tie up money for years in buying depressed common stocks could still have made some real dough. In the wake of the closure of the Knickerbocker Trust, the market that lent short-term against stock market collateral—the "call loan," now the "margin loan" market—needed lenders: the prevailing rate of roughly 6% was not high enough to induce sufficient supply. (Recall that a 6% interest rate in 1907 was a "real" rate in that the gold-backed 1907 US dollar held and even tended to increase slightly in value over time.) Trust companies like the Knickerbocker routinely made unsecured loans to Wall Street brokers, but when the panic began and Trust depositors began queueing up to withdraw money, credit on Wall Street became very tight.

J.P. Morgan's syndicate of banks sent funds, but the demand from the illiquid was insatiable. The nation's newspapers reported the dramatic events: on October 22—the day the Knickerbocker Trust suspended operations—the morning call loan rate of 10% produced insufficient supply, and by mid-afternoon rates had skyrocketed to 60% and later 70%. On October 24, call money rates peaked at 90%. The following day, call money temporarily reached 100%. Brokers in Philadelphia threw up their hands and simply discontinued all trading on margin.

One person's high borrowing rate is another's payday, of course, and the market participants holding unencumbered cash in late 1907 might have felt that they were indeed living in "the best of all possible worlds." Those who could lend funds to the call loan market did so, earning 1% on their money in only a few days. These profitable rates persisted: call loan rates remained well above 20% into early November and averaged around 20% for months afterwards. There was money made by these same liquid folks in cashing checks and clearing house certificates, perhaps discounting them significantly from face value.

My contemporaries may wish to avert their eyes. The business of charging "usurious" rates to the financially distressed, the illiquid, is not a pretty sight. Those solvent souls in 1907 who saw themselves as fulfilling a useful function—providing cash at a time when it was needed—had to know that the country at-large probably thought of them as vultures.

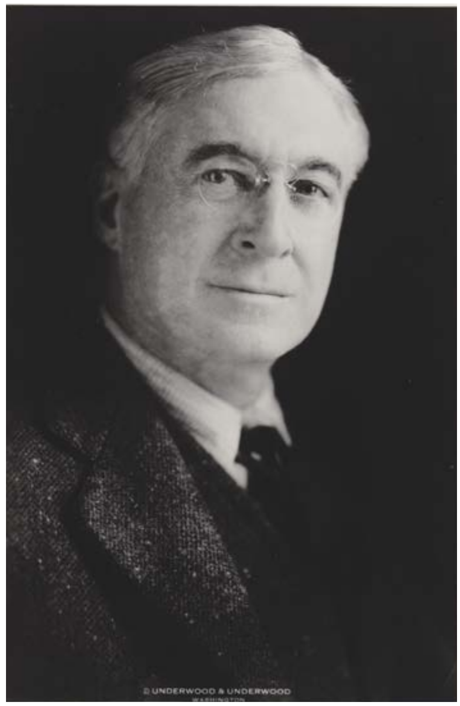
The financial trauma of October 1907 did not pass quickly from public consciousness. It became known that the leaders of the major Wall Street banks, J.P. Morgan and his colleagues, had decided behind closed doors which banks and trust companies could be saved and which ones had to be shuttered. In the days before deposit insurance, this appeared to be incredible power wielded by private citizens accountable only to their shareholders.

Members of the US Congress decided to investigate this unaccountability. They held what became known as the Pujo Hearings, named after Congressman Arsene Pujo of Louisiana, a House Banking and Currency subcommittee inquiry into whether there was a "money trust" in Wall Street. ("Trust" was both a legal and a colloquial term used to connote a concentration of power in any industry that might need to be broken up. A financial trust company like the Knickerbocker Trust, however, was a lightly regulated bank that paid slightly higher deposit rates, but that generally took somewhat more risk with depositors' money.) The work of this subcommittee resulted in the passage of the 16th Amendment authorizing a federal income tax, the Clayton Anti-Trust Act and the Federal Reserve Act establishing a central bank, a bank designed to check the power of J.P. Morgan and his colleagues that would—most significantly—be empowered to function as a "lender of last resort."

The establishment of the Federal Reserve sought to banish for eternity those all too conspicuous vultures. By empowering an institution to combat bank panics, the government made sure such vultures could never again profit from having "ready money" in times of panic. Early on, its leaders were hesitant. But as the dollar's link to gold loosened until being cut entirely in 1971, the Federal Reserve became increasingly willing to provide cheap liquidity at any hint of trouble.

Federal Reserve officials like to quote the classic principles of central banking promulgated by 19th century British economist Walter Bagehot, who counseled that central bankers should—in times of panic—lend freely against good collateral, but at a high interest rate. Modern central bankers have certainly mastered the first two of these precepts—lending freely against good collateral (if mortgages are considered "good")—but the third concerning interest rates they seem to ignore entirely.

Wall Street watched this and gradually concluded that liquidity does not pay. In the wake of the Lehman bankruptcy in 2008, when liquid funds were needed, short-term rates did not spike



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Bernard Baruch was young and newly rich in 1907. He quietly deposited $1 million into a few strapped but solvent Manhattan banks, and he shipped cash to a distressed copper mining concern in Utah while buying up its common stock.

upwards—they declined! Federal Reserve infusions saw to it.

The lesson was obvious. What was the point of holding cash for such scarce times if the Fed could print all any bank needed? What large financial institution could afford to tilt against such a policy wind and do other than "borrow short, lend long and hope for the best"? A century of financial gerrymandering has produced a system that simply does not reward risk-aversion in any positive way.

The implications of this policy change extend beyond "solving" the liquidity problem of the moment. One is the decline of the currency: The Federal Reserve now manages interest rates to maximize economic growth and employment, meaning that interest rates are often kept lower than they would be otherwise, which in turn requires the Federal Reserve to create money to bid up the price of government securities and suppress these rates. (The call money rate, for example, has never returned to remotely the levels of October 1907.) All the money and credit creation required has left the US dollar—now a "Federal Reserve Note"—a tiny 2% speck of the gold-backed dollar of 1907, and gradual devaluation (i.e., "inflation targeting") is now a governmental goal.

The subtle, less visible effect is on the value of, and the potential returns accruing to, financial prudence. To illustrate, it helps to recall the actions of a few prominent financial figures from those bygone days of 1907.

Bernard Baruch was young and newly rich in 1907. He had made a fortune speculating on sugar prices, the end of the Spanish-American War in 1898, and the Northern Pacific ownership tussle and short squeeze of 1901. He was, nevertheless, a public-spirited man who would later volunteer his services to the government during the World Wars. The fall of 1907 found him worried about the markets and holding roughly $2 million in cash in safe-deposit boxes. When the panic took hold, he saw his duty to be in shoring up the nation's financial condition. He thought of approaching J.P. Morgan directly with offers of help, but he knew Morgan regarded him as little more than a gambler. Baruch instead quietly deposited $1 million into a few strapped but solvent Manhattan banks, and he shipped cash to a distressed copper mining concern in Utah while buying up its common stock.

Jesse Livermore was also a newly rich speculator in 1907, but he was somewhat more flamboyant than his contemporary, Baruch. Known around Wall Street as the "Boy Plunger" because of his perennially youthful appearance and his investing style, Livermore was alternately barbarically liquid and then bankrupt as his speculative positions waxed and waned. (In Wall Street parlance of the day, to "plunge" was to sink most of one's assets into a single speculative position.) October 1907 found him solidly short the market, and he was making hundreds of thousands of dollars per day in late October when the great man, J.P. Morgan himself, placed a discrete phone call to Livermore asking him to discontinue his shorting of the stock market. Livermore complied, later recalling the significance of Morgan's request as part of "a day of days for me," one in which his winnings were tallied in both money and "intangibles."

Henrietta "Hetty" Green was a monstrously rich private investor in 1907. The sole surviving heiress to a New Bedford,

Massachusetts whaling fortune accumulated in the 1830s–1850s, Green meticulously compounded her capital during the gilded age of the late 19th century. She was notoriously frugal, perhaps miserly, a trait that when combined with her willingness to sue—her spending on lawyers was positively profligate—earned her the name "The Witch of Wall Street." Green was nevertheless willing to speculate in greenbacks following the Civil War and in railroad stocks, yet also made sure she kept considerable cash on hand to back up these somewhat speculative positions.

"I like to buy railroad stock and mortgage bonds," she told a reporter in 1905. "Government bonds are good, though they do not pay very high interest," she added. She went on to define her *modus operandi* as follows: "When I see a good thing going cheap because nobody wants it, I buy a lot of it and tuck it away."

Two years later, when the Panic of 1907 struck and the New York City government was starved for cash, Green wrote them a check for $1.1 million in exchange for some freshly minted New York City revenue bonds. Her son supervised her holdings in Texas, and he later estimated her total emergency lending at that time to be at least $6 million (approximately $200 million today) in Texas alone.

George Baker became president of the First National Bank of New York in 1877 at the age of 37, and he proceeded to run the bank for over 50 years. The First National, "Baker's Bank," operated in a way that is almost unthinkable today. There were only 20 holders of First National stock in Baker's early years, and the Bank's directors owned 92% of the shares. They did a big business trading in US treasuries, turning over an astonishing $250 million of them in 1877.

Baker's Bank was focused on liquidity, on trading in securities, not commercial loans. Deposits were taken only in six-figure or greater amounts, upon which a placid (but "real") interest rate of 2% was paid. In those days before deposit insurance, Baker's reputation for prudence and discretion was such that conservative businesses kept large amounts with him: the privately held Ford Motor Company often kept some $50 million or more at the First National, and Henry Ford himself often $5 million. In October 1907, when J.P. Morgan convened a conference of his fellow New York bankers to organize a loan to support the call loan market, Baker's First National Bank was ready and willing to lend.

Of these eccentric characters of yesteryear, the only one whose behavior during the Panic of 1907 echoes down to us at all is that of the Boy Plunger, Jesse Livermore. His large positions "shorting" the market were similar in spirit to those of the hedge fund managers of 2007–2008, like John Paulsen and Steve Eisman, who aggressively shorted the market for home mortgages. Livermore's plunging later caused him severe losses, just as it would later for those modern-day hedge fund managers.

The conservative ways of Baruch, Green and Baker—their skeptical, liquid 1907 investing styles—have now been banished into irrelevance. Their descendants on Wall Street today are a less skeptical group, one that trusts their central bank to provide when things get tough. When the call went out for liquid funds in September 2008, Wall Street turned to the Fed. Wall Street's residents would have explained that there was no point in holding cash, that short-term interest rates yielded next to nothing and even less after inflation and that there was big money to be made in issuing and securitizing mortgages and, thereby, helping with the government's goal of creating an "ownership society."

In the wake of the Panic of September 2008 that government, as mentioned, did provide. Many of the government's elected leaders, however, were critical of Wall Street's titans. In committee hearings similar to the Pujo Hearings they announced that the denizens of Wall Street brought before them had been reckless and overpaid in the years leading up to the panic. Lawmakers pointed to the "leverage" employed by some of these financial firms—borrowing done to increase the size and potential profits of their investments—and made it look foolish and self-serving. Laws were passed (e.g., The Dodd-Frank Wall Street Reform and Consumer Protection Act) mandating risk reduction and aggregating to the government increased oversight of the surviving firms.

In passing laws and in more closely monitoring these firms, the law-making class acted on the assumption that the world could be controlled by a series of prohibitions and penalties. Wall Street, however, is governed by the profit motive, so these prohibitions represent barriers to be hurdled in a never-ending steeplechase race, not guidelines, not lodestars.

Mandating fiscal prudence on Wall Street may be difficult without some tangible payoff for such behavior. A Federal Reserve that manages short-term rates to encourage growth and employment and therefore often keeps such rates below the rate of inflation does not reward prudence. The shrewd, liquid, conservative management of funds practiced profitably by those wealthy characters of 1907, one that grants the possibility there may someday be a rainy day when prudence is profitable, is perhaps as archaic as their buggy whips. $

Dan Munson is a student of financial and scientific history. His writings have appeared in Barron's Financial Weekly *and many other publications.*

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BUBBLES AND CRASHES

The Great Democratization, the Great Kibosh and the Resurrection

By Brent Goldfarb and David A. Kirsch

In the early 1800s, an average worker in the United States would work for half a year before he would earn enough to purchase a single share of a stock on the New York Stock Exchange (NYSE). By 1995, the average worker would need to work only a few hours. While the trend is noisy, it goes down consistently. It is best measured in months throughout the 1800s, as the technology of trading slowly improved. But it wasn't until the 1920s that democratization accelerated in a meaningful way. Additional regulatory, organizational and technological advances were needed for that next big leap. At least four additional factors led to continued and, in the 1920s, accelerated market democratization: the continued rise of industrials, the spread of the telephone, the emergence of national brokerage houses (in particular Merrill Lynch), a wide-scale marketing campaign by the NYSE and perhaps blue-sky laws to make trading and traded companies more transparent to shareholders.

Trading floor of the New York Curb Exchange, 1915

The rise of industrials was swift, although it was certainly hampered by the Panic of 1907, and most likely that of 1893 as well. In 1900, NYSE unlisted stocks would command about 33% of the value of the market and 80% by the 1920s. The decade of the 1920s was set for speculation in industrial securities.

This story is echoed on the Curb Exchange: in 1911, half of all listings were oil or industrials; by 1920, the number had reached 80%. Like the NYSE, the number of companies traded on the Curb increased immensely. For every company traded on the exchange in 1900, there were 30 in 1930—the majority of this increase occurring after World War I. Shares of firms commercializing radio, airplanes and other new technologies all began trading on the Curb, moving to the NYSE only when they had become sufficiently large. Several oil-related innovations were listed on the Curb Exchange too, as were the Standard Oil trusts, apparently because J.D. Rockefeller wished to avoid disclosure requirements that had been initiated on the Big Board. While throughout the period the technology of investing made the markets much more accessible, and also disposable income increased, most of the rise in participation came after World War I.

But in a surprising way, war policy itself may have attracted people to the markets. The Woodrow Wilson administration chose to finance the war in part through the direct sale of Liberty bonds to the general public. For many people whose mode of savings was putting their money in a jar, or perhaps opening a bank account, this was the first time they owned an intangible financial asset as an investment. The phenomenon was widespread. Estimates suggest that up to 25% of the population purchased the bonds. Then, throughout the 1920s, there was an ideological and business movement to enhance access to capital markets and create what became to be known as "citizens' capitalism." The primary vehicle was to sell shares to employees and customers, and literally millions of individuals became shareholders through these programs—more than 500,000 in AT&T alone!

There were hundreds of such programs operating throughout the first three decades of the 1900s. New technology played an important enabling role. In addition to the telegraph and associated ticker-related innovations, the telephone also contributed to the process of market democratization. One of the most valuable business franchises to emerge from Western Capitalism in the 19th century was Alexander Graham Bell's American Telephone & Telegraph. The telephone had a profound impact on communication, so it is not surprising that it also influenced how investors accessed financial markets. Telephone, telegraph and ticker—in conjunction with the spread of local brokerage houses—allowed individuals to trade stocks on the NYSE from anywhere in the country.

During the 1920s, members of the NYSE opened up brokerage houses across the United States (and the world). By 1900, NYSE members had brokerage offices throughout the city and country, 370 of them to be exact. By 1914, there were 414, but after the war the Big Board greatly expanded its reach. There were 663 in 1920, then 1,053 in 1928 and 1,200 in 1930. The market leader of this movement was Charles Merrill, and he led through the expansion of his firm, Merrill Lynch. The brokerage represented consumer-facing companies and promoted their shares to its customers.

As described by financial journalist Joe Nocera, Merrill Lynch's "small customers were investing in the same stores they were shopping in." Charles Merrill both promoted chain retailers' shares and

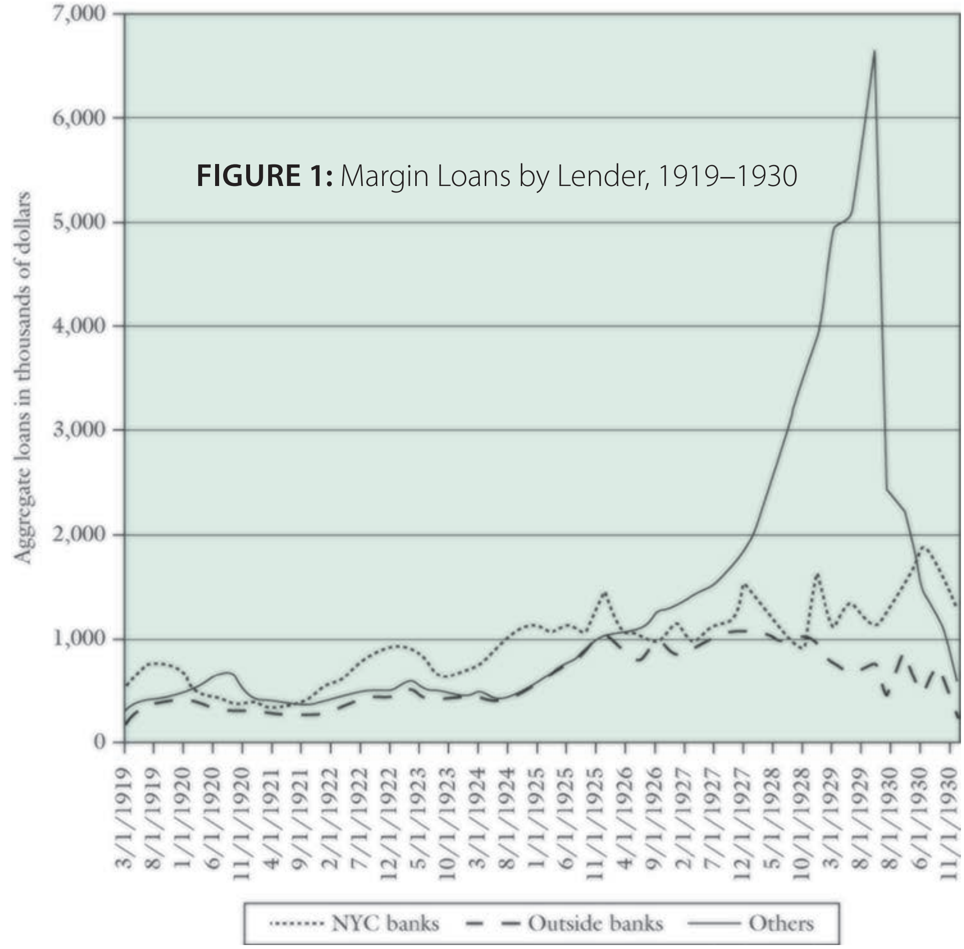


FIGURE 1: Margin Loans by Lender, 1919–1930

Source: Board of Governors of the Federal Reserve System (US), Banking and Monetary Statistics, 1914–1943 (Board of Governors of the Federal Reserve System, Washington, DC, 1943), 494, table 139.

supported their businesses directly. New investors were investing in businesses they knew because they were customers of those businesses.

By the mid-1920s, it was possible to sit in one's home, place a phone call to the local brokerage office and have a trade executed on Wall Street. Finally, in 1928, the NYSE embarked on an aggressive public relations campaign aimed at popularizing the "people's market." As the market was reaching its peak, the Big Board embarked on a media campaign to attract new investors, otherwise known as novices.

What is fascinating about this period was that investors were flocking to the markets even though they remained exceptionally opaque institutions. Insider trading and price manipulation were not illegal. The list of ploys that were permitted is astonishing: for example, one common practice was to send simultaneous buy and sell trades to the same broker to create a fictitious price. As the demand for and success of industrials increased, and interest in investing spread to more and more parts of the population, the resulting squeeze of investors by insiders proved to be politically unsustainable.

In the 1910s, a series of securities regulations were enacted that sought to protect minority shareholders in almost every US state. The pressure caused the NYSE to act to preempt government intervention. But the exchange moved unevenly, initially banning only the most egregious practices. In 1913, the practice of buying and selling simultaneously was banned, although using customers' funds to manipulate prices to members' advantage was only "condemned." Only in 1917 did the NYSE enjoin its members from buying tomorrow's headlines from hungry newspaper reporters, and it took another year after that for the exchange to forbid the deliberate circulation of rumors intended to move prices.

Given the range of predatory practices to which the unsuspecting investor could be subjected, it is hardly surprising that many potential novice market players opted not to participate. There is little evidence that these protections were enforced, and the legal obligations of corporations toward their shareholders were being undermined by a race to the bottom in the laws of general incorporation.

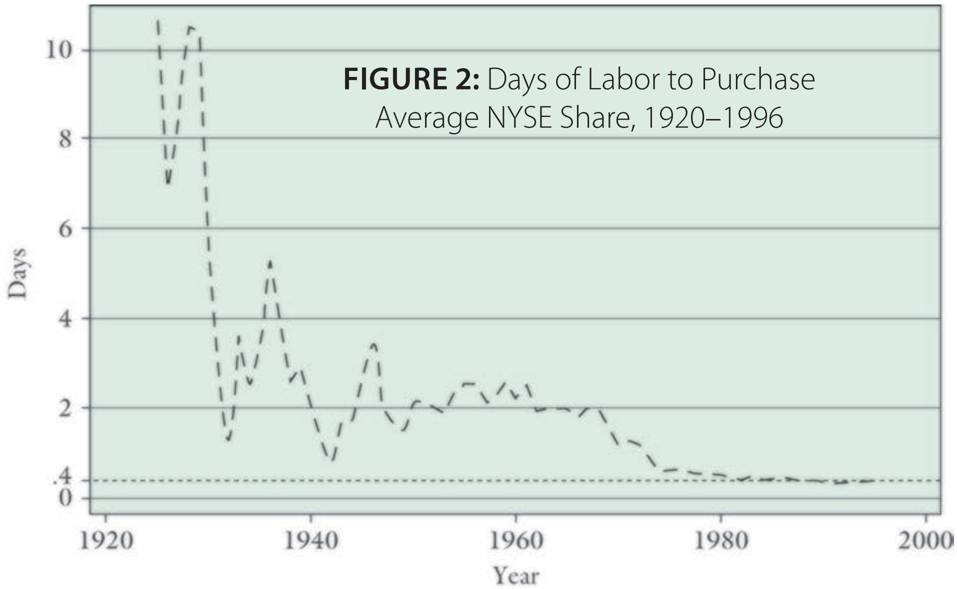
Despite the questionable market reforms and remaining opaqueness, the conditions had been set and market capitalism exploded. Regional exchanges opened in Detroit, Cleveland, San Francisco, Chicago and Los Angeles. Besides the aforementioned New York Curb Exchange, similar exchanges emerged near other regional exchanges.

O'Sullivan reports that the number of traded securities increased significantly from 1880 through 1930. The number of stocks traded across all US exchanges increased from 916 in 1900 to 1,340 in 1915 and 2,659 in 1930.

These changes were met with increases in investors. Gardiner C. Means's estimates from 1900 were based on the total number of "book stockholders," or the sum of the number of people holding each individual stock. This overcounts the total number of individual owners because the same person might hold positions in more than one company, in which case that person would be counted twice. But this method is good for examining trends, as the total number of individual investors must be highly correlated with the number of book stockholders, a number that quadrupled between 1900 and 1930. Specifically, the number of reported book owners increased from 4.4 million in 1900 to 7.5 million in 1913, and then to 12 million in 1920 and 18 million in 1928. Means estimated the total number of individuals by dividing book owners by four and triangulated with income tax records.

Between four million and six million individuals owned shares in corporations in 1927, perhaps three million to five million of them in public corporations. And based on income tax records, there are reasons to believe that the "few hundred men" controlling the market in 1900 were being diluted. From 1916 to 1921, the top 25,000 highest-earning Americans saw their ownership share of corporate America decrease from 57% to 37%.

During the same period, individuals who didn't make the top 100,000 highest



Sources: Average prices for December 1925–1999 are calculated on the basis of data from CRSP US Stock Database, Center for Research in Security Prices (CRSP), Booth School of Business, University of Chicago. Wage data: Robert A. Margo, "Hourly and Weekly Earnings of Production Workers in Manufacturing: 1909–1995," table Ba4361-4366, in *Historical Statistics of the United States, Earliest Times to the Present*: Millennial Edition, ed. Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch and Gavin Wright (New York: Cambridge University Press, 2006). Note: The y-axis is the amount of labor, measured in days, the average worker would need to work in order to buy the average share traded on the New York Stock Exchange.

earners saw their ownership share rise from 24% to 44%. But perhaps the most remarkable change occurred at the end of the 1920s. Between 1927 and 1930, the number of individuals owning stock almost doubled. Means estimates that 10 million people owned stock by 1930. Ownership of corporate America became more diversified across class as well. Means opined that the shift was of "almost revolutionary proportions, and of great social significance."

There are often brakes on investors' ability to engage in speculative activity, and one of the most common is limiting their ability to buy stocks on margin. Indeed, a central theme of any historical reckoning of the striking frothiness of the late 1920s is the degree to which investors bought stocks on margin. When investors buy on margin, they pay a fraction of the cost of the purchase and borrow the rest of the money using the value of whatever shares they buy as collateral. Lenders bet that the value of the securities will remain sufficiently high to cover their loans. This leverage can greatly magnify the effect of investor optimism, as smaller amounts of new investment can be used to drive up prices. Across most histories and studies of bubbles, such leverage is highlighted as an important factor in driving up prices. Buying on margin was common throughout the early 20th century (and a subject of some of the reforms instituted by the NYSE during the 1910s), but in the 1920s it reached an unprecedented scale.

What is particularly surprising is the extent to which margin loans were made by novices in 1928 and 1929. This is depicted in Figure 1: from 1927 through the crash and into 1930, the predominant source of funds was not the New York city banks (which would be expected to have the highest level of expertise) or the outside banks (which might be expected to be informed, though not quite as much as the local New York city banks), but the nebulous "others." Just over half of these funds came from outside corporations, which sought to park idle funds in the hands of investors who were paying interest rates well above 10%, while the rest came from abroad, both from individuals and from investment trusts.

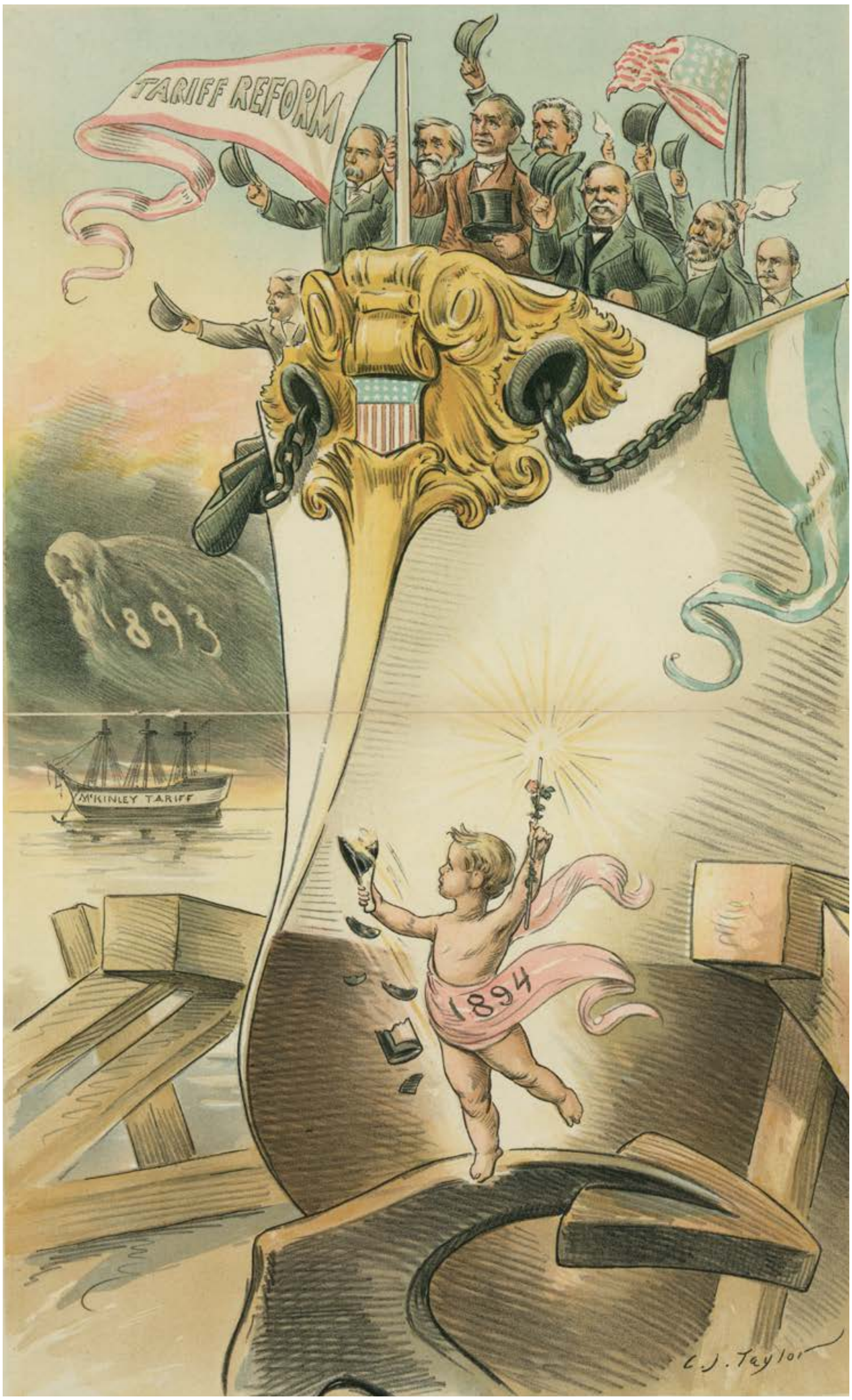
From 1926 through 1930, New York banks loaned $25 million on margin ($342 million in 2016 dollars) and out-of-state banks loaned $16 million ($218 million in 2016 dollars), but other lenders loaned more than $48 million, equivalent to $641 million in 2016, so more than both other groups combined. Not only were novices investing, we can also conclude that stock market speculation in the late 1920s was also backed by a new and likely inexperienced class of margin lenders. The democratization of investment had worked on more than one level. Money markets allowed industrial firms to park idle capital in the hands of market speculators, even as the firms themselves were ill equipped to understand the risks involved in the practice.

The Great Depression put the kibosh on market democratization for decades. The conservatism of individuals scarred by the events of the 1930s helped depress ownership levels to a fraction of the population until the 1950s. That is, despite the series of reforms in the 1930s that successfully increased market transparency—including the creation of the Securities and Exchange Commission (SEC)—market participation did not increase for 30 years. At this point, the memory of the Great Crash was fading, and a new generation of investors began looking at the stock market. The introduction of mutual funds helped: these bundled offerings mitigated some of the psychological biases described earlier and allowed investors to delegate decision making to expert fund managers, while simultaneously diversifying holdings.

Around the same time, Merrill Lynch instigated a brokerage house campaign aimed at making stock investing more accessible to ordinary people. The history of this period includes important additional changes: growing incomes and decreasing transactions costs made stocks more affordable to all, and perhaps most important, the standardization and regulation afforded by the SEC may have increased investor confidence. By the mid-1950s, the number of new investors again began to increase.

Fortunately, and thanks in no small measure to the regulatory reforms of the 1930s, for the post–World War II period, there is much better data on the number of shareholders. This is helpful in identifying the arrival of novices based on specific trends in the data. There are several estimates of the » *continued on page 27*

From Tariffs to Taxes



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By Michael A. Martorelli

From 1888 to 1913, the arguments for and against tariffs and income taxes were as heated as any in the country's history. The decision to shift from using tariffs as the major source of federal revenue to depending instead on income taxes occupied two generations of lawmakers. Achieving that goal required the intervention of the Supreme Court and the passage of an amendment to the US Constitution.

The Tariff Act of 1789 was the first major piece of legislation passed by the members of the first US Congress. Given their negative experiences with British taxation, it's no surprise those legislators turned to tariffs as the prime source of the new country's revenue. Taxing imported goods at an average rate of about 15% did indeed raise the prices of those products to American consumers. But doing so also established a pricing umbrella that gave nascent manufacturing industries an economic subsidy as they began to establish themselves. The legitimacy of using tariffs to finance the government was not especially controversial. But while the validity of tariffs was not seriously challenged, they were never universally popular. Indeed, throughout the next 100 years there was rarely an extended period of time when the details over the amount of the tariff and the range of goods on which that levy was imposed were not the subject of strenuous arguments among government officials and the general population. Even while waging those arguments, however, successive administrations of both political parties were able to maintain a certain level of protectionist tariffs through periods of both peace and war, as well as prosperity and panic.

The tariffs that were generating about $50 million annually (80–90% of all federal receipts) in the late 1850s proved woefully inadequate to finance the Union's $3.2 billion cost of prosecuting the Civil War. In 1861, Treasury Secretary Salmon Chase persuaded Congress to establish the nation's first income tax in order to bolster the Union's finances. During the four years of fighting, Congress approved new

1893 *Puck* cartoon titled "Launched at Last –Good Luck to Her!" showing a cherub labeled "1894" smashing a bottle of champagne as he launches a large ship under the banner "Tariff Reform" with Grover Cleveland and members of his cabinet standing on the bow waving their hats.

levels for both tariffs and the income tax. The federal government borrowed more than $2.6 billion to finance the war; it generated another $360 million from income taxes and $300 million from tariffs.

The income tax expired in 1872. Federal fiscal policy returned to what had been considered normal in the antebellum era. From 1875 to 1890, tariffs consistently accounted for well over half of federal receipts. Meanwhile, total federal spending declined steadily, leading to the generation of sizable budget surpluses throughout the 1870s and 1880s and the eventual calls for substantial tariff reform, i.e. reductions.

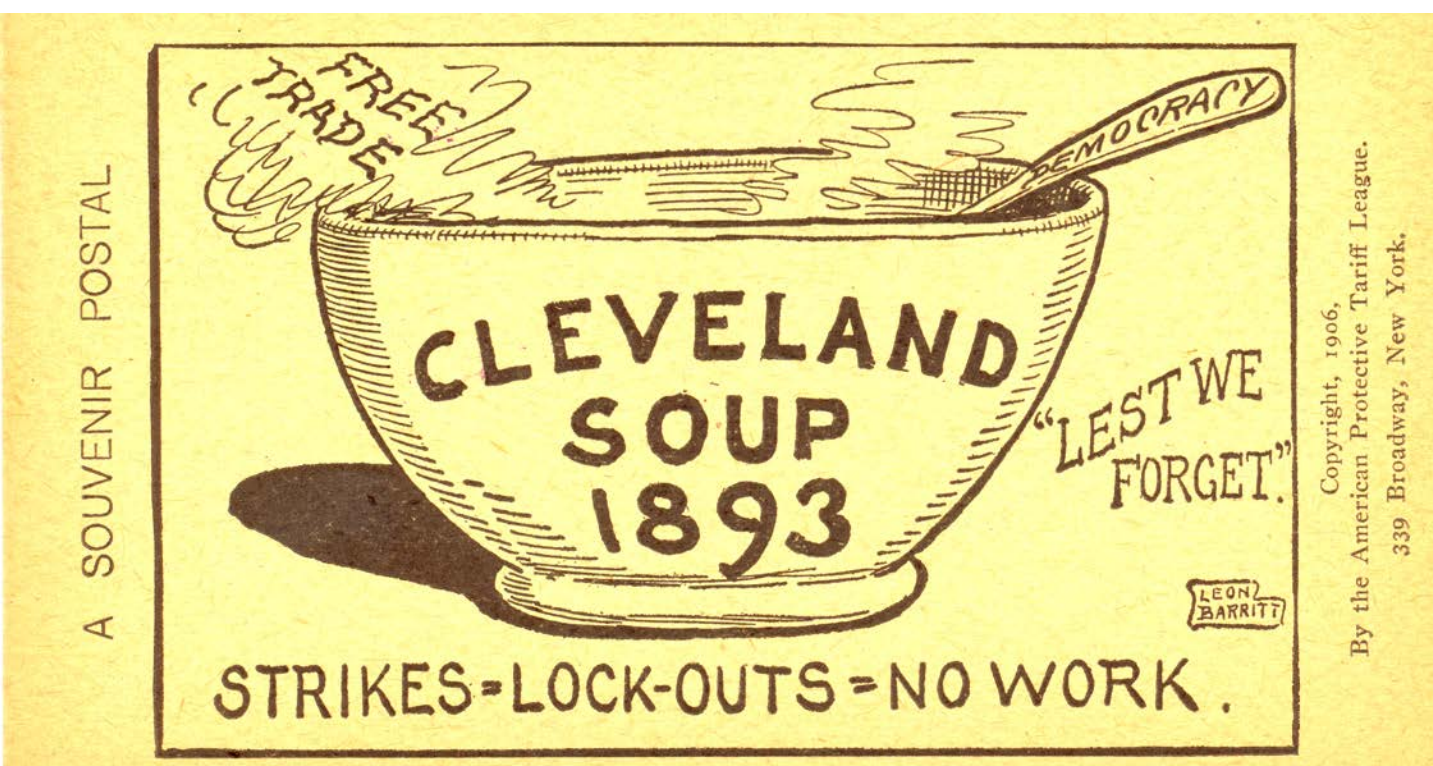
In December 1887, Democratic President Grover Cleveland sparked what congressmen themselves called "The Great Tariff Debate of 1888" by devoting much of his Annual Message to tariffs. It was a blistering attack on the overall level of tariffs, the inequitable nature of the levies imposed on various imported products and the damage that high tariffs did to the financial health of consumers and farmers. The Democratic majority on the House Ways and Means Committee spent the next year crafting a bill that would reduce the average tariff by almost 30%.

The Republican-controlled Senate Finance Committee proposed a different bill that would actually raise most tariffs. The debate that raged in Congress throughout 1888 reflected the two political parties' worldviews that tariffs were either essential to the protection of American manufacturers against foreign competition (Republican) or harmful to most consumers and farmers forced to pay higher prices for manufactured goods (Democratic).

The political deadlock seemed to be broken by the election of 1888 that saw Republicans win both the presidency and the control of both houses of Congress. But the victors misinterpreted Americans' feelings about the need for high tariffs. Benjamin Harrison actually lost the popular vote to incumbent Grover Cleveland; but the Republican became the 23rd President by winning a majority of votes in the Electoral College. From his position as the new chairman of the House Ways and Means Committee, Congressman William McKinley shepherded through Congress what became known as the McKinley Tariff Act of 1890; that bill raised the average duty on imports by about 45%.

The next two elections proved that the Republicans had overplayed their hand. In November 1890, Democrats won back control of the House and gained seats in the Senate; in 1892, Cleveland re-claimed the presidency and Democrats re-gained control of both houses of Congress. Predictably, key legislators in the House and Senate crafted the Wilson-Gorman Tariff Act, which lowered tariffs to their pre-1890 levels and which President Cleveland signed in August 1894. The lingering effects of the Panic of 1893 were instrumental in making the election of 1896 yet another realigning one in which Republicans took control of the presidency and both houses of Congress. Party leaders devoted their time to again addressing the tariff issue; by July 1897, President William McKinley was ready to sign the Dingley Act and, thereby, raise tariffs back towards their 1890 levels.

After winning re-election in 1900, the protectionist-minded McKinley found himself challenging the long-held Republican idea that American industry benefitted from the existence of a high wall of protective tariffs. Companies of all sizes were increasing their efforts to market their products to customers throughout Europe, South America and Asia. The President came to realize that high levels of tariffs



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1906 postcard for the American Protective Tariff League showing a bowl labeled "Cleveland Soup, 1893." The words "free trade" and "lest we forget" appear to the left and right of the bowl, and a spoon "democracy" rests inside the bowl. The image references the Panic of 1893 and President Grover Cleveland's inaction at reforming the tariff laws.

Library of Congress

1894 print shows a St. Bernard rescue dog with a blanket labeled "Tariff Reform" strapped to its back and a small barrel labeled "The Wilson Tariff Bill" under its chin, next to a man labeled "Labor" caught in snow drifts labeled "McKinley Tariff"; nearby, Grover Cleveland, as a monk with a hand to his ear, responds to the dog's bark. At the top of a hill, in the background, is the US Capitol.

were impeding those efforts. In order to enable more international trade, he suggested in a speech in September 1901 the need for a series of joint agreements among nations to reduce tariffs and eliminate unnecessary trade barriers. But he never got the chance to take concrete steps to pursue that idea since he was assassinated the very next day. For most of the next seven years, the very activist President Theodore Roosevelt gave lip service to the idea of at least semi-free trade and supported selected reciprocity agreements. However, he did very little to address the tariff question in any fundamental manner.

Immediately upon taking office in March 1909, Roosevelt's chosen successor, William Howard Taft, called Congress into special session to address what he believed was another necessary effort at tariff revision. Taft held the traditional Republican view that high tariffs were necessary to protect the interests of the nation's manufacturers. But he also acknowledged that the need for high rates was steadily declining as those manufacturers continued to improve their own efficiencies of production and distribution. The President was content to let congressional leaders develop the details of the much-needed tariff revision. However, his sporadic comments during the five months it took those men to develop a bill only served to confuse the supporters of both protectionism and free trade. In August, President Taft signed the Payne-Aldrich Tariff Act, a compromise bill that lowered 650 tariff rates, raised 220 others and left 1,150 unchanged. It proved unsatisfactory to a large number of reform-minded Republicans and was a major reason why many of them deserted the party in the election of 1910. That intra-party split enabled Democrats to gain control of the House and make inroads into the Republican majority in the Senate. Two years later, Democrats again benefitted from the split between Republican conservatives and progressives. Democrat Woodrow Wilson entered the White House in March 1913 with majorities in both houses of Congress. In October, he signed the Underwood-Simmons Act that lowered the general tariff level again—this time to one not seen in more than 75 years.

As noted earlier, the income tax that had been levied during the Civil War years expired in 1872. During the next decade, congressmen representing the Greenback movement and Labor Reform party made more than a dozen attempts to revive that tax.

They were repeatedly rebuffed by representatives from the industrial Northeast. Throughout the 1880s, a growing number of labor leaders, agrarian associations and social reformers became increasingly aware of the role that high tariffs and high excise taxes were playing in exacerbating the unequal distribution of wealth in America. By the dawn of the new decade, they began to realize that a progressive income tax represented the most effective way to dissolve the apparent link between high tariffs and the monopoly powers enjoyed by the country's business elite. Imposing an income tax during a time of peace and prosperity still posed a challenge. But the changing times helped accelerate the desire for such a tax.

The Panic of 1893 saw an unprecedented number of bank closings and corporate failures, as well as record increases in unemployment and personal

bankruptcies. It provided an excellent backdrop for the emerging consortium of the disaffected groups noted above to push their congressional representatives to impose a progressive income tax on the wealthy. In addition to reducing tariffs, the Wilson-Gorman Act of August 1894 introduced a 2% federal tax on individual income. Members of both the Populist and Democratic parties supported the reduction in tariffs and the concomitant establishment of a graduated income tax with a relatively high exemption. Taking these actions would not disrupt the level of federal revenue but would shift the balance of revenue-producers from the poor to the rich. The validity of that argument was never tested. In April 1895, the Supreme Court declared the tax to be an unapportioned direct one that violated several clauses of the US Constitution.

This particular version of an income tax might have died, but the idea for one certainly did not. Its supporters believed the Supreme Court had been mistaken in its ruling. Moreover, they saw the personal income tax as not only an economic tool to address some fiscal imbalances, but an ethical and moral way to raise government revenue while limiting the growing concentration of wealth. In the 1896 campaign for the presidency, the Democratic standard-bearer William Jennings Bryan supported an income tax aimed primarily at the wealthiest Americans to replace the tariffs and excise taxes that were paid largely by the poorest citizens. Even after his defeat, the party leaders continued to push for an income tax. In 1898, House Democrats' proposal for an income tax of 3% on annual incomes over $2,000 was soundly defeated.

In the midst of the emerging debate over the income tax, the federal government began to report increasingly larger deficits in each year from 1897 to 1899, even with the Dingley tariffs at historically high levels. Restraining federal spending was difficult, largely due to the need to fund programs such as the expansion of the Navy and increases in veterans' pension benefits. In the first several years of the 20th century, members of the Republican party's growing progressive wing came to appreciate the need to consider new sources of revenue. Another financial panic in 1907 brought reduced economic activity, more corporate bankruptcies, high unemployment and new strains on the federal budget. By 1909, congressional progressives had become sufficiently powerful to add an income tax rider to an early version of the Payne-Aldrich Tariff Act.

On separate occasions since winning the White House, President Taft had voiced both support for and opposition to an income tax. He did not want to see another challenge to the Supreme Court over such a fundamental change in federal policy. Instead, he believed Congress should pass a constitutional amendment authorizing a tax on individuals' income before actually imposing such a levy. Even while wrangling over what was to become the Payne-Aldrich Tarif Act noted earlier, in July 1909, Congress sent to the states this language for a proposed 16th Amendment: "The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." Taft persuaded the conference committee crafting the final version of the tariff bill to replace the provision for an income tax on everyone with one taxing only the income of corporations. As noted earlier, he signed Payne-Aldrich in August.

When the 16th Amendment was proposed, conservative lawmakers in Congress doubted it would be ratified by the required number of 36 of the country's 48 states. Many failed to recognize the public's dissatisfaction with the complex and always-changing system of tariffs. Farmers in the South and West, and Progressives and Populists in other areas agreed with the traditional Democratic argument that tariffs unfairly taxed the poor and drove up prices for all consumers. President Theodore Roosevelt and his progressive Republican followers supported the amendment. Legislators representing manufacturers, bankers and others involved in the country's expanding foreign trade recognized its role in supporting reductions in tariffs and other trade barriers. And government officials of both parties saw the tax as a way to insure the greater level of federal revenue they believed would be necessary to respond satisfactorily to the growing militarism of Germany and Japan. All three candidates for President in 1912 supported the amendment. It was no surprise when Delaware acted in February 1913 to become the 36th state to vote for its ratification.

With that amendment now approved, Congress used a provision of the aforementioned Underwood-Simmons Act of October 1913 to impose a progressive individual income tax at rates ranging from 1% to 7%. Tax revenue started to flow to the individual US Treasury within the year.

Tariffs generated 95% of the US government's revenue in 1790. During the next 120 years, they rarely dipped below 60% of federal receipts. In 1915, following the passage of the 16th Amendment, tariffs contributed only 30% of those receipts. During the subsequent 102 years they declined steadily as important sources of revenue; tariffs now account for less than 2% of all the funds the government receives. Meanwhile, the personal and corporate income taxes formally proposed in 1909 have recently been contributing more than 55% of revenue. The so-called "payroll tax" used to fund the Social Security and Medicare programs established in 1933 and 1965, respectively, provide another 35%. But that, as they say, is another story. $

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OUR FIRST GREAT DEPRESSION
The Bicentennial of the Panic of 1819

Andrew H. Browning

Two hundred years ago, the United States was struck by an economic and social catastrophe that has since become known as the Panic of 1819. It introduced the American people to the pattern of boom and bust; it was the first of the series of financial crashes and economic depressions (called "panics" in the 19th century) that have since recurred at regular interval—most recently in 2008. Nevertheless, it was quickly forgotten, as the country was soon swept up again in what Hezekiah Niles, publisher of *Niles' Weekly Register*, called "the almost universal ambition to get forward." With little understanding of its causes, the country failed to learn its lessons and in less than 20 years plunged into the Panic of 1837.

The bubble of prosperity that led up to the Panic of 1819 introduced elements of modern life that we can hardly imagine doing without: consumer credit, real estate purchases with low down payments, a bank in every good-sized town, investment in corporate stock and even the New York Stock Exchange itself, which opened in 1817. The ensuing panic gave the country its first experience of nationwide waves of bankruptcies, business failures, foreclosures and unemployment, and it inaugurated the endless debate over government regulation of business—essentially nonexistent until then.

To speak of the "Panic of 1819"—a term not used until decades later—is to imply, misleadingly, a single, discrete event confined to a single year. There was no "Black Tuesday" in 1819; the economy was still too decentralized and communication too slow. The panic arguably began in 1815 as a regional recession in eastern commercial cities and mill towns, spreading down the Ohio River in 1816 and 1817; it evolved into a banking crisis in 1818 and became a full-blown national depression with the collapse of cotton prices in 1819 and a tide of business failures and bankruptcies. The sudden end of a western land boom left millions of dollars in debts, and hard times lingered in the South and West well into the mid-1820s.

The panic had its roots years earlier, in such unlikely places as Haiti, Mexico and Indonesia. Toussaint L'Ouverture's successful slave rebellion, turning the French colony of St. Domingue into the Haitian Republic, persuaded Napoleon to sell France's remaining American possessions to help fund his expensive war with Britain, and in 1804 the United States issued $11.25 million in bonds to pay for the Louisiana Purchase. They were due to be redeemed in 15 years, in specie—gold or silver—but after Napoleon invaded Spain, revolutions broke out in the Spanish colonies of Mexico and South America, and the mines that produced 80% of the world's precious metals began shutting down, making silver currency scarce.

When the Napoleonic wars (and the War of 1812) finally ended in 1815, thousands of demobilized British soldiers and sailors flooded the world's largest industrial workforce, just as the termination of wartime government contracts lowered demand for factories' output. England faced the prospect of a workers' revolution if employment could not be kept up. The fateful decision was made to dump goods below cost on the American market, in an effort to destroy nascent American manufacturing competition—to stifle infant industries in the cradle, in Lord Brougham's memorable words. It had a sudden and devastating effect. In the new mill towns in New England and the commercial cities along the Atlantic coast, economic depression began almost

as soon as post-war trade resumed. A moderately protective tariff in 1816 only briefly slowed the flood of cheap imports.

The depression worked its way west through the manufacturing towns of Pittsburgh and Lexington, Kentucky, but its initial impact was masked by a simultaneous wave of real estate speculation. Demand for western land was fueled by a combination of factors. In 1800, public land had been made available for 25% down with four years allowed to pay the balance; the minimum price had been set at $2 per acre and had remained unchanged, despite rapid inflation. With the defeat of Tecumseh in the northwest and the end of the Creek War in the Mississippi Territory, millions of acres of tribal lands were opened to settlement. After Congress let the charter of the first Bank of the United States (BUS) expire in 1811, hundreds of state chartered banks sprang up, all eager to lend.

Then, in 1815, a volcano half-way around the world in the Dutch East Indies blew itself up. The Tambora eruption was the most violent in recorded history, and its dust cloud spread through the stratosphere, depressing temperatures and disrupting weather patterns for two years. Record cold in 1816—"the year without a summer"—ruined harvests from Tibet to Brazil; to avoid starvation, Europe was forced to import American grain at any cost. Meanwhile, England was buying more and more American cotton to process into textiles that were sold back to America. As commodity prices climbed to unheard-of heights, speculators rushed to make their fortunes. A land boom was on across the United States. First in Ohio and Indiana and then in Alabama, both the acreage sold and the prices paid at auction defied belief.

The insatiable demand created an enduring catch phrase: "doing a land-office business." In 1818, sales exceeded 2.5 million acres, and in 1819 over 3 million acres were auctioned off at unprecedented prices. It should have been obvious that a real estate/banking bubble was inflating, but the potential profits from wheat and cotton were irresistible. Bank notes—with next to nothing in the way of gold or silver to back them—could not be printed fast enough by the many new banks, and they fueled the boom. Partly to impose some sort of order and partly with an eye to the Louisiana Purchase bonds (the first $3 million due for redemption in 1818), Congress now chartered a second Bank of the United States, 20% government-owned but 80% private. Its stockholders, in the United States and abroad, were all eager to earn dividends. Unwilling to deny them, for a year the Bank simply fed the borrowing frenzy instead of trying to restrain it.

Manufacturing was just beginning to recover when the commodity bubble began losing air. The 1817 harvests in Europe were abundant, and the price of American wheat tumbled. Land sales in the Northwest abruptly slowed in consequence. In 1818 the BUS, after a year of unrestrained lending, made a 180 degree

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1894 *Puck* cartoon titled, "Another Hide to Be Taken," which shows a wolf wearing a red cape labeled "Hard Times 1893," standing on a rock outside a gate labeled "US" with Uncle Sam standing inside the gate and pointing a rifle labeled "Business Revival" at the wolf. Hanging on the wall of a building in the background are hides labeled Hard Times 1819, Hard Times 1837, Hard Times 1857 and Hard Times 1873. Columbia, carrying a rifle labeled "Prosperity," is rushing to aid Uncle Sam.

change in course; realizing that it didn't have the silver required to redeem the Louisiana bonds, it now curtailed loans, demanded prompt repayment of outstanding debts and refused to accept any bank's notes that were not redeemable in specie. Banks and businesses around the country began to fail. Then toward the end of the year, English mills, unable to keep paying high prices for raw cotton while selling yarn and cloth at a loss, temporarily switched from American suppliers to cheaper sources in India. The Panic of 1819 arrived as word came from Liverpool that the price offered for cotton—far and away America's most valuable export—had fallen from over 30 cents per pound to under 15 cents. Soon farms were being lost to sheriffs' sales, businesses were failing and almshouses began to swell with destitute families.

It has been popular ever since to blame the second Bank of the United States for creating what people called "pecuniary embarrassments," "money pressures" or simply "hard times." The Bank had certainly made matters worse by pumping more credit into the market from 1817 through mid-1818; and although its contraction was inevitable, it was dangerously sudden and continued without easing even after the severely deflated economy spiraled down out of control. But the Bank had not forced its customers to borrow so far beyond their means, and the orgy of speculation was itself inspired by unsustainable commodity prices that fell more rapidly—and further—than anyone could foresee.

The panic was too complex and far too extensive to blame solely on the Bank of the United States. There was plenty of blame to go around, but few were willing to accept any of it. Respectable people condemned bankrupts as irresponsible and extravagant—which some doubtless were—until they suddenly found themselves bankrupt as well. All classes of society suffered. Laid-off agricultural workers in the countryside had to camp in the woods and live off the land; city merchants and craftsmen wound up in debtors' prisons. When a Pennsylvania debtor died before he could be arrested, the constable tried to jail the corpse. In Massachusetts, a farmer traded a large hog for a small pig, "and gave 50 cents boot money, because the little one would eat less during the winter."[1]


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President Thomas Jefferson (left) and Mormon Church founder Joseph Smith (right) were two of the many Americans whose lives were changed by the Panic of 1819.

Those least responsible for their own distress were the most frequently held accountable for it: the unemployed poor. Municipalities, their meager poor taxes quickly spent, refused aid to any but those willing to give up their freedom and enter the poorhouse; some churches provided winter firewood or soup, but charitable groups were more likely to dole out sermons on the virtue of thrift and the evil of luxury. The evangelical revivals of the Second Great Awakening rejected Calvinist predestination in favor of the possibility of salvation through personal conversion—but a corollary was the belief that people's poverty must be the result of their own moral failure rather than God's inscrutable will.

Too few statistics were kept to allow detailed comparisons with later depressions, but the evidence that we do have is sobering. Contemporary estimates of nationwide unemployment ranged from hundreds of thousands to millions; in places like Pittsburgh and Philadelphia, where thorough investigations were undertaken, it appears to have reached 50% of workers. Western land had been a siren call that could not be resisted; people spoke of being "carried off" by the Ohio or Alabama "fever," and those who moved once would likely move again. Nearly all farmers were in debt, and court records are filled with both large and small landowners suing their debtors in order to pay their creditors. Businesses could not collect from their customers, and lawyers could not collect from their clients.

Wheat and cotton, the two great cash crops that had looked so promising, lost half their value in 1818 and 1819, and millions of acres of newly purchased land were forfeited, often from the inability to pay a few hundred dollars on a loan. Nearly half of the public lands sold in Alabama wound up being relinquished to the government. The westward movement slowed to a trickle, and new western cities were especially vulnerable. In St. Louis half of the businesses closed and one third of the people simply left. Cincinnati had been the fastest growing city in America, but half of its homes and businesses were foreclosed upon. The Bank of the United States had to open a second Cincinnati branch devoted exclusively to managing its real estate.

From 1818 through 1823, the total value of both imports and exports, which had been rapidly rising, fell more steeply than in any later depression. Federal revenue, almost all derived from import duties and land sales, plummeted. Other long-term growth trends also reversed. The number of immigrants from Europe had been steadily growing, but now their letters warned others to stay home, and ships left New York carrying disillusioned crowds back to the old country, just as they would in 1932. Existing evidence is suggestive of deep decline in GDP, on a par with the Great Depression. In Pittsburgh, the value of manufactured goods fell to one-third what it had been. It would take the city a decade to get back to the annual

value of manufacturing it had reached in 1815, and Lexington's hemp-processing plants, which had produced naval stores like rope and canvas, never reopened. The economy of the United States depended on commodity sales abroad; between 1816 and 1823 the index of export values fell by more than half, even as the quantity of cotton exported actually increased.[2]

The economy eventually recovered—in time for the next cycle of boom and bust that culminated in the Panic of 1837. It is not so much that people forgot the lessons of the panic as that they failed to learn any. Everyone knew about the previous century's South Sea Bubble and Mississippi Bubble—European investment schemes that had blown up in the faces of gullible investors. But their victims were understood to have been wealthy speculators, not the hard-working population. The Panic of 1819 was different; it struck all economic classes and all regions. The country had seen nothing like this before, and there was so little context for understanding it that very little of practical benefit was learned.

The "hard times" of 1819 fill the letters and diaries of Americans, some well-known but many of them obscure at the time and most forgotten now. A few, like the Philadelphia banker Stephen Girard or the Mississippi planter Stephen Duncan, were so wealthy that the depression's worst blows could not ruin them; for others, the future was suddenly in doubt.

Thomas Jefferson was ruined; his grandson took over his finances, but he was forced to sell Jefferson's beloved Monticello. When Stephen F. Austin's family lost everything in Missouri, he led emigrants to the Mexican province of Texas. Lucy Mack Smith (mother of the Mormon prophet Joseph Smith) recorded her family's decision to move west from Vermont, "to New York, where the farmers raise wheat in abundance." Their first harvest there, they hoped, would feed them, but until then her husband worried, "How shall we be able to sustain ourselves?" The Smiths weathered the crisis, but for many people, the Panic of 1819 was the catastrophe that upended their lives: Llewellyn Jones, an aged veteran of Valley Forge who hanged himself in despair when cotton prices fell in Alabama; or John Piatt, Cincinnati's leading citizen and donor of its first public park, who died in debtors' prison at the age of 40.[3]

Many other lives were cut short by the effects of the panic, and even more hopes were dashed. The disillusionment of a nation resonates in the words of Patience Lippincott, called Patty by her family. With a three-month-old daughter she had followed her husband to buy land in what he insisted was a "Terrestrial Paradise" in Missouri. Writing home to the brother she would never see again, she closed her letter, "Let us remember that this world is not our abiding place... We should not be immoderate in our desires for any earthly goal for all things beneath the sun shall fade and vanish away."

Only a few months later, her restless husband moved his little family again, to Illinois. There Patty died of malaria in the tiny village of Milton, which was entirely abandoned within 10 years—a ghost town left behind by the Panic of 1819.[4] $

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3. Lucy Mack Smith, *History of The Prophet Joseph Smith, By His Mother* (Salt Lake City: Improvement Era, 1902), 65, 69.
4. Emily Noyes, ed., *A Family History in Letters and Documents, 1667–1837* (St. Paul, MN: [privately printed] 1919), 1:344–45; Charles Rammelkamp, "Thomas Lippincott: A Pioneer of 1818 and his Diary," *Journal of the Illinois State Historical Society* 10 (1917–18), 254.

Bubbles and Crashes

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number of shareholders, the most optimistic of which is that put forth by the NYSE. Their fact books estimate that in 1952, there were six million shareholders; about 4% of the US population owned stock.

By 1956, some estimates suggest that this number had increased by one-third. By 1965, the number increased to 20 million, or 10% of the population. That is, the 1960s witnessed a very sharp increase in the number of individual investors investing in the stock market.

By 1972, this number may have been as high as 32 million people, although it declined following the oil crisis to 25 million in 1975. This pattern is mirrored in the time series of stock affordability in Figure 2. Following World War II, average share prices continued to decline, wages rose and odd lot stock trading was increasingly available. By the 1950s, almost any manufacturing worker could afford to purchase an average priced stock with a couple of days' wages, and this remained fairly constant until the 1970s. While not cheap, stocks were now in the realm of affordable investments for much of the population. It was in the 1970s that the cost of a share decreased to less than a day's labor. In short, there most likely were not many new novices throughout the 1940s and 1950s, and there was a sharp increase in the late 1950s and, in particular, in the early 1960s. In short, there most likely were not many new novices throughout the 1940s and 1950s, and there was a sharp increase in the late 1950s and, in particular, in the early 1960s. $

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The Legacy of
CARTER GLASS


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"Carter Glass is the single most important lawmaker in the history of American finance."

—Richard E. Farley

By Matthew P. Fink

CARTER GLASS was not a theorist. He did not spell out his economic and political beliefs in books and articles. Glass was a practical politician who served as a congressman, Secretary of the Treasury and senator for over 43 years. Like other men of action, Glass was not entirely consistent. He had the nation's first securities disclosure bill prepared in 1919 when he was Secretary of the Treasury. Later as a senator, he showed no interest in this topic when Congress considered the Securities Act of 1933. Glass drafted the Glass-Steagall Act of 1933 to prohibit banks and their affiliates from underwriting and distributing securities. Just two years later, he proposed legislation that would have permitted banks to reenter major aspects of the securities business.

Despite these and other inconsistencies, Glass's overall record—his speeches, floor statements in the House and Senate, questions at congressional hearings, private correspondence, and above all, his actions—demonstrate that Glass held consistent core beliefs. First, Glass generally opposed an activist federal government. This was evidenced by his fierce hostility to the vast majority of New Deal laws. Second, Glass feared powerful financial interests. Therefore, he made exceptions to his usual opposition to government involvement in the case of laws designed to curb concentrated financial power. Third, Glass favored a legislative approach that sought to curb financial power by fragmenting that power rather than by seeking to regulate it.

Thus, he drafted the Federal Reserve Act of 1913 to create a number of regional reserve banks instead of a singular central bank.

Later he drafted the Glass-Steagall Act of 1933 to separate commercial and investment banking activities, rather than authorizing the Federal Reserve Board and the Comptroller of the Currency to regulate bank security affiliates. At times, Glass also pursued a fragmentation approach with respect to government. Thus, in 1934, he succeeded in lodging jurisdiction over securities activities in a new specialized

Carter Glass, during his tenure as senator from Virginia, May 5, 1920.

agency, the US Securities and Exchange Commission (SEC), rather than in a large existing agency with other responsibilities, the Federal Trade Commission.

Glass did not construct his proposals from scratch. Instead, he used existing models and suggestions put forth by others. Glass based the regional reserve bank approach of the Federal Reserve Act on the existence of clearing houses in major cities that facilitated transactions between banks in that region. In drafting the Federal Reserve Act, Glass borrowed many technical provisions from the Aldrich Plan. Two decades before the Glass-Steagall Act separated commercial and investment banking, the Pujo subcommittee and Louis Brandeis urged this very reform. Before Glass proposed creation of the SEC, the Roper Committee, Senator King and the Twentieth Century Fund had called for the establishment of a specialized securities agency. However, while Glass did not originate these proposals, he was the person most responsible for getting them enacted into law.

Glass's major efforts in the financial area all had the same goal—preventing the flow of money from communities around the country to Wall Street to fund securities speculation. As an unknown congressman, Glass had been assigned the difficult task of designing reserve banking legislation and getting it enacted into law. Glass was extremely proud of his accomplishment, the Federal Reserve Act of 1913. The act created a unique geographically decentralized reserve banking system precisely in order to curtail the movement of funds from across the nation to northern financial markets. Much of Glass's work after 1913 was designed to preserve this decentralized system. Thus, one of Glass's main goals in the Glass-Steagall Act was to stop the use of the regional Federal Reserve banks he helped create in the Federal Reserve Act from directing money from their local communities to Wall Street.

In 1934, Glass supported the creation of the SEC in an attempt to keep the Federal Reserve System free from entanglement with securities markets. Glass opposed the Roosevelt administration's 1935 banking legislation since he feared it would convert the decentralized Federal Reserve System into a central bank that inevitably would be controlled by northern financial interests.

Development of Glass's Beliefs

Glass's political and economic beliefs had their origin in his views regarding post-Civil War Virginia. Like most of his white southern contemporaries, Glass was an unabashed racist who saw Reconstruction, where the federal government disenfranchised ex-Confederates and enfranchised blacks, as an unmitigated disaster. During the currency debates during the latter part of the 19th century, Glass developed a similar animosity toward another outside force: big city financial interests.

Glass's views regarding the federal government and Wall Street were reinforced by his government service during the Woodrow Wilson administration, where he was surrounded by other white Southerners. Like Glass, they were raised in a region where, in Robert Wiebe's words, "Traditional hostilities toward national interference permeated the atmosphere." President Wilson was from the South, as were his Secretary of the Treasury, William Gibbs McAdoo, and his Chief Economic Adviser, Louis Brandeis. Democrats controlled both houses of Congress; and over half of the Democratic senators and over 40% of Democratic House members were from the South. Southerners served as Speaker of the House and Majority Leader in the Senate. They were named as chairmen of 12 of the 14 Senate committees and 11 of the 13 House committees.

In 1912, Wilson had campaigned for the presidency against Republican President William Howard Taft and Progressive Party candidate Theodore Roosevelt. Roosevelt called for the New Nationalism, which meant greater federal regulation of big business and finance. Wilson, advised by Brandeis, advocated the New Freedom, which meant greater federal efforts to enhance competition.

Brandeis wrote, "[Roosevelt's Progressive] Party does not fear commercial power, however great, if only methods for regulation are provided. We [the Democrats] believe that no methods of regulation ever have been or can be devised to remove the menace inherent in private monopoly and overweening commercial power." Once Wilson was in office, Glass was an enthusiastic supporter of Wilson's New Freedom programs, which reflected Glass's own inclinations. Thus, Glass authored the Federal Reserve Act, which provided for a number of regional reserve banks rather than one central bank, and he voted for Wilson's proposals to strengthen the antitrust laws.

There was a striking similarity in the backgrounds and views held by Glass and Brandeis. Both were born in the South just before the start of the Civil War (Brandeis in 1856 in Kentucky; Glass in 1858 in Virginia). Both grew up in the post-Civil War South, with its antipathy to interference from both the federal government and powerful northern interests. Both men made an exception to their opposition to federal government action in the case of laws aimed at curbing powerful financial interests. Thus, they both were involved in the development of the Federal Reserve Act, with is stress on geographic decentralization and public control of the banking system. In his 1913 book, *Other People's Money and How the Bankers Use It,* Brandeis called for the separation of commercial and investment banking; Glass accomplished separation in 1933 in the Glass-Steagall Act. In his book, Brandeis also called for a securities disclosure law. In 1919, when Glass was Secretary of the Treasury, he had the nation's first securities disclosure bill prepared and introduced in Congress.

The New Deal

Franklin Roosevelt's election as President in 1932 presented Glass, Brandeis and other Wilsonian progressives with a conundrum. Even before Roosevelt assumed office, Glass and other old progressives worried that he was likely to pursue policies providing for greatly increased federal authority. Some of FDR's early programs, such as the Securities Act, the Securities Exchange Act and the Glass-Steagall Act, implemented New Freedom ideas. But others, like the National Industrial Recovery Act and the Agricultural Adjustment Act, embodied the very kind of massive federal interference in the private sector that progressives feared. Many, if not most, of the old Wilsonian progressives, including Glass, broke with the New Deal.

There is a striking similarity between the views regarding the New Deal held by Glass and Brandeis. Both opposed the National Industrial Recovery Act. Glass called the

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President Franklin D. Roosevelt signs the Glass-Steagall Act, June 16, 1933. Behind the President (L–R) are Senator Allen Barkley, Senator Thomas Gore, Senator Carter Glass, Comptroller of Currency JFT Connors, Senator William G. McAdoo, Representative Henry S. Steagall, Senator Duncan U. Fletcher, Representative Alan Goldsborough and Representative Robert Luce.

act, "Arbitrary, senseless, and brutal" and "Hitlerism." After Brandeis and his Supreme Court colleagues declared the act unconstitutional, Brandeis told Roosevelt's aides, "This is the end of this business of centralization… I want you to go back and tell the President that we're not going to let this government centralize everything. It's come to an end." More generally, Glass railed against the vast increase in federal power during the New Deal, stating that "the federal government [is] protruding its nose into all kinds of business," and predicting "the righteous failure of every damned project that these arbitrary little bureaucrats are vainly endeavoring to put in effect." Similarly, Brandeis stated:

> The United States is too big to be a force for good; whatever we do is bound to be harmful. We have bitten off more than we can chew. Good can come from small countries. The United States should go back to the federation idea, letting each state evolve a policy and develop itself. There are enough good men in Alabama, for example, to make Alabama a good state. But the tendency is to put responsibility upon the federal Government.

In one of his diatribes against the New Deal, Glass let slip his racist fears that a federal government with the power to interfere with private economic rights could equally interfere with race relations. In his 1937 radio address attacking Roosevelt's attempt to pack the Supreme Court, Glass defended the Court by arguing, "It was the Supreme Court of the United States that validated the suffrage laws of the South [preventing blacks from voting] which saved the section from anarchy and ruin in a period [Reconstruction] the unspeakable outrages of which nearly all the Nation recalls with shame." Brandeis did not make such racist public remarks. However, Brandeis never addressed in his judicial decisions, books, articles or published correspondence the major American dilemma of race relations.

Popularity of the New Nationalism Approach

Since World War II, the nation generally has followed the New Nationalism approach of imposing greater regulation on the financial sector, rather than the New Freedom approach of fragmenting

CARTER GLASS'S LEGACY

The Federal Reserve Act: Glass drafted the Federal Reserve Act of 1913 to create a unique geographically decentralized reserve banking system. Beginning with the Banking Act of 1935, some authority has been shifted from regional reserve banks to the Federal Reserve Board in Washington, DC. However, the system still functions within the decentralized structure designed by Glass. Today there are proposals to further increase the authority of the Board (for example, to give it responsibility to name the heads of the regional banks), but no one is proposing to do away with Glass's core concept of geographic decentralization.

The Securities Exchange Act: In 1934, as Glass proposed, the SEC was created as a stand-alone independent agency, rather than as part of a larger governmental body, the approach favored by New Dealers. Shortly after the SEC was created, there was a call for "unifying … governmental agencies which regulate the operations of security capitalism…into a Federal Finance system which would exercise all the powers now performed by these separate agencies." Similar proposals have been put forth over the ensuing years. None have been enacted. Thus, the SEC remains a stand-alone federal agency devoted solely to the regulation of securities activities, just as Glass intended.

The Glass-Steagall Act: In 1999, the Glass-Steagall Act was amended to permit commercial banks to affiliate with securities firms, thus undoing one of Glass's major reforms. However, the act's other provisions, including those limiting bank lending for securities speculation (Glass's primary objective), providing for federal insurance of bank deposits and prohibiting direct bank involvement in securities activities, remain in place.

concentrated financial power. Most notably, in 1999, Congress enacted the Gramm-Leach-Bliley Act, which repealed the Glass-Steagall Act's provisions that prohibited banking organizations from owning securities firms. As a result, today large universal banking organizations engage in all aspects of the securities business. Congress also has enacted a long series of financial laws imposing new regulatory requirements on the financial sector. As part of this legislation, Congress has created a large number of new regulatory agencies. In 1912, the only federal financial regulator was the Comptroller of the Currency, who oversaw national banks. Today there are more than a dozen federal agencies and quasi-agencies that regulate the financial sector.

This New Nationalism approach reached a new peak when Congress responded to the 2008 Financial Crisis by enacting the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The act runs 848 pages and directs regulators to adopt 243 new rules, to undertake 67 major studies and to prepare 22 reports. Many rules that have been adopted run for dozens of pages. The so-called Volcker Rule dealing with proprietary trading by banks is 71 pages long and has an 850 page preface. The act also created the Financial Stability Oversight Council, a group of 10 financial regulatory agencies that has the authority to determine that a particular non-bank financial institution poses a threat to the stability of the financial system and therefore should be made subject to heightened prudential requirements.

Despite increased use of the New Nationalism regulatory approach exemplified by the Dodd-Frank Act, Glass's approach of fragmenting financial power still remains the cornerstone of the American financial system. The financial laws that form the basis of our financial system—the Federal Reserve Act, the Securities Exchange Act and the Glass-Steagall Act—continue to function largely as Glass intended.

It is not surprising that over the decades these most important financial laws have been amended to meet new conditions and to reflect new theories. What is surprising is how much of the basic regulatory superstructure created by Glass is still in place.

Today there is widespread belief that the Dodd-Frank Act has not lessened the chances of a major financial crisis. Neil Barofsky, the former Special Inspector General of the Treasury, has warned, "We had a system that was broken…and the fundamentals within that system haven't changed." He stated, "'The question is not if the United States faces another financial disaster, it's when." David Primo, professor of Political Science and Business Administration at the University of Rochester, predicted, "Dodd-Frank will do nothing to prevent another financial crisis."

There is also concern that there are now a handful of giant banks and that if a crisis threatens one just one of them, there will be a catastrophe. Thomas Hoenig, former vice chairman of the Federal Deposit Insurance Corporation, has noted that the United States now has a financial industry "that is far more concentrated, complex, and government dependent that at any time in recent history. In 1990, for example, the five largest US financial holding companies controlled only 20% of total industry assets. Today that number is 55% and will likely increase. Ironically, these events also have left the US economy increasingly vulnerable to industry mistakes."

These concerns have led to proposals to impose new controls along the lines of Glass's approach to financial regulation. A bipartisan group of senators has introduced legislation to restore the Glass-Steagall Act's provisions separating banks and securities firms. Another proposal would go a step further and require the separation of banks from both securities firms and asset managers. Two Democratic senators have proposed legislative limits on the size of banks. Others have suggested imposing similar size limits on securities firms. Another idea is to create a new institution, "The Sentinel," whose sole responsibility would be to assess and report annually on the efficacy of financial laws and regulations. Thus, Glass's legacy can be found not only in the laws that underlie the American financial system, but also in current-day proposals to improve the functioning of that system. $

Matthew P. Fink was employed by the Investment Company Institute, the mutual fund association, from 1971–2004, and he served as the Institute's president from 1991–2004. He is the author of The Rise of Mutual Funds: An Insider's View *(Oxford University Press, 2008) and* The Unlikely Reformer: Carter Glass and Financial Regulation *(George Mason University, 2019), from which this article has been adapted.*

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WHERE ARE THEY NOW?

Bache & Co.

By Susie J. Pak

Portrait of Jules S. Bache, founder of Bache & Co.

Semon Bache & Co. (f. 1847, New York)

Born in Bavaria in 1826, Semon Bache was the son of Joel Bach. Semon immigrated to Jackson, Mississippi, in 1843 and moved to New York in 1846. The following year, he founded the firm of Semon Bache & Co., which imported goods and mirrors. (In the United States, Semon added an "e" to his last name as a way of Americanizing it). The firm expanded into the glass trade and dealt in window, plate and mirror glass. In 1846, his brother-in-law, Solomon B. Ulmann (sometimes spelled Ulman), joined the business. A native of Bavaria, Ulmann immigrated to the United States at the age of 10. In 1857, Semon's brother, Siegmund J. Bach, joined the firm.

Semon Bache married the former Elizabeth VanPraag, the daughter of Dr. Aaron S. VanPraag, in 1849. They had seven children: "Henrietta, wife of Julius Kayser; Sarah, wife of Adolph Thurmann; Blanche, wife of Charles Neukirch; Jules Semon Bache; Leonora, wife of Leopold Rossbach; Leopold Semon Bache; and Mamie, wife of Siegmund Politzer." Semon's son Leopold S. Bache, who was born in New York, joined his father's firm and also went into business with his brother-in-law, Julius Kayser, who was in the silk glove business. In 1890, the firm consolidated its business in German mirror plate glass with six other firms and formed The German Looking Glass Plate Co. This branch of the firm's business was further consolidated in 1893 with two other firms, Heroy & Marrener and Holbrook Bros., and it became The Manhattan Plate Glass Co. When Semon Bache died in 1891, his partners were Solomon B. Ulmann, Sigmund J. Bache, Joe S. Ulmann and Leopold S. Bache.

Leopold Cahn & Co. (f. 1879, New York)

Semon's son Jules Semon Bache, who was also born in New York City, was the founder of the Bache brokerage house. Educated at the Charlier Institute, Bache began working as a cashier at the firm of Leopold Cahn & Co. (f. 1879, New York) in 1880. Leopold Cahn, the firm's senior partner, was his uncle. Cahn was born in Soden, Germany and immigrated to the United States. He worked at Kuhn, Loeb & Co. and Speyer & Co. before starting his firm, and he joined the New York Stock Exchange in 1869. Jules Bache made partner in 1883, the year he joined the New York Stock Exchange. In 1892, when Jules was made head of the firm, the firm's name was changed to J.S. Bache & Co.

J.S. Bache & Co. (f. 1892, New York)

According to journalist Phyllis Furman, Jules Bache "started out by handling the accounts of small investors, including members of New York's garment industry…" The firm grew and also diversified into different lines of business. By 1905, J.S. Bache & Co. had seven offices, including one in Montreal and another in Liverpool, and it was trading in stocks and commodities. In the 1920s, the firm financed "a number of major projects, including the construction of the New York City subway system. Bache also invested in numerous

mining, railroad and automotive companies including the Ann Arbor Railroad, Dome Mines and Chrysler." Right before the stock market crash of 1929, Jules Bache had become more conservative with the firm's credit and had not invested the firm's own capital in the market. As a result, Bache was able to weather the storm. Jules S. Bache died in 1944 and was succeeded by his nephew, Harold L. Bache, Leopold's son. The following year, the firm's leaders changed its name to Bache & Co.

Gerald Tsai, Jr. joined Bache & Co. in 1951 and was later the first Chinese-American to lead a Dow Jones industrials company.

Bache & Co. (f. 1945, New York)

Born in New York City in 1894, Harold L. Bache was educated at the Ethical Cultural School, the Gunnery School and Cornell University. He began working at J.S. Bache & Co. in 1914 as a runner and joined the firm after graduating from college. He served in the infantry during World War I, and then he returned to the firm. He became a partner in 1926 and senior partner in 1944.

The partners of the newly organized Bache & Co. were Harold L. Bache; A. Charles Schwartz, a protégé of Bernard Baruch; James A. Fayne, a former member of Hornblower & Weeks; Laurence B. Rossbach, who was Jules S. Bache's nephew; and Sam H. Sampliner. New partners included John J. Ryan Jr., James C. Ryan, Frank T. Ryan and Joseph M. Ryan, who were brothers and owners of John J. Ryan & Sons, a cotton and rayon textile dealer. The firm also had six limited partners: Charles A. Blackwell, a former member of Redmond & Co.; Adrian C. "Ace" Israel, the head of A.C. Israel Commodity Co. in New Orleans founded by his father; Russell E. Sard, a former member of Redmond & Co.; Charles R. Blakely; and Adolph Woolner. Partner Captain Clifford W. Michel retired and join Carl M. Loeb Rhoades & Co.

By 1954, Bache & Co. was "one of the largest brokerage firms in the country." It had "branch offices in 57 cities in the United States" and "correspondents in 31 other cities and branches or correspondents in Canada, England, France, Germany, Japan, Mexico and Switzerland." It had 1,400 employees and "memberships on 24 securities and commodities exchanges." That year, Harold Bache stated that "only through the creation of a large group of investors who will provide private venture capital will the nation be able to maintain and increase the level of business activity and thereby ensure uninterrupted employment and a prosperous economy." He said that the financial industry had arrived at "the age of the 'little financier.'"

One financier who joined the firm in the early 1950s was Gerald Tsai, Jr. A Chinese American immigrant who made his name in the 1960s as a mutual fund entrepreneur, Tsai was born in 1929 in Shanghai and immigrated to the United States at the age of 18. After graduating from Boston University, Tsai joined Bache & Co. in 1951 and then Fidelity Investments in 1952. In 1965, he started his own mutual fund, the Manhattan Fund, which he sold in 1968 right before the market crashed. In 1978, Tsai gained control of Associated Madison companies, a life insurance firm. In 1982, American Can bought the firm. Under Tsai's leadership, American Can sold the part of the company that produced cans to Triangle Industries, then led by Nelson Peltz, and changed its name to Primerica in 1987. Tsai became chief executive and "the first Chinese-American to lead a Dow Jones industrials company." That year, Primerica bought the investment house Smith, Barney, Harris Upham & Co. before being bought by Sandy Weill's Commercial Credit Corp. in a $1.5 billion deal in 1988.

Bache & Co., Inc. (f. 1965, New York)

In 1965, Bache & Co. incorporated. According to *The New York Times*, the firm's change from a partnership to a corporation "[called] attention to a speed-up in the trend toward incorporation by the 656 member firms of the Big Board… One key advantage of corporate status is that it fosters continuity of capital in a concern. In a partnership, when an individual partner dies or retires, his capital may be withdrawn." By that time, Bache had 103 domestic and international offices. It had 4,000 employees and was the third largest brokerage firm in the United States. Harold L. Bache became chairman and chief executive officer, A. Charles Schwartz became vice chairman and George Weiss became chairman of the executive committee. Adrian C. Israel became president. (Israel resigned in 1966 and joined Havenfield Corporation, a new firm, in 1967 as chairman.)

Not long after the firm incorporated, Harold L. Bache died in 1968. That year,

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Certificate for preferred stock in the Northern Pacific Railroad Company, issued to J.S. Bache, 1886.

John E. Leslie, who had been with Bache since 1955, became chairman of the executive committee, succeeding George Weiss. Weiss, who had been with Bache & Co. since 1928 and a partner since 1937, became vice chairman. Harry A. Jacobs, Jr. became president. In 1969, Leslie was named chairman and Weiss was named honorary chairman. The following year, Leslie was also made chief executive officer.

A native of Austria, John E. Leslie immigrated to the United States in 1938. Trained as a lawyer and a graduate of the University of Vienna, Leslie graduated from Columbia University's business school, where he studied accounting. He joined Bache & Co. in 1954 and became a general partner in 1955. In 1970, during Leslie's tenure, the firm ran into financial difficulties. According to *The New York Times*, Leslie "declined to comment on Bache's loss, but he did say, 'I think an appropriate increase in the rate of commission is absolutely essential. This is true for the entire industry, not just for Bache. It is in the public interest.'"

In a letter to the firm's employees and stockholders, Leslie "attributed the lack of earnings mainly to 'the tremendous increase in costs, wages, prices, automation, rent etc.'" He also blamed low commission rates, shortened trading hours and reduced trading volume. He stated, "For a while…this unbelievable situation was overshadowed by unusually heavy volume. Now the volume has come down and stock prices are lower and the consequences have become crystal clear."

Despite these challenges, Bache & Co. changed with the times and even expanded in the early 1970s. In 1971, Bache & Co. became "the second publicly listed securities company in the country," after Merrill Lynch. Two years later, Bache & Co. bought the firm of Halsey, Stuart & Co., Inc. Leslie stated that the merger gave "the firm Bache's existing experience with individual investors, and Halsey's experience with institutional and investment banking." Founded in 1916, Halsey Stuart & Co. was the result of Harold L. Stuart's acquisition of "the Chicago office of the 15-year-old investment firm of N.W. Halsey & Co., Inc." It became known by 1970 as "a specialist in the management and marketing almost exclusively of debt securities." In 1974, the firm created a holding company for the securities firms called Bache Group Inc.

Bache Group Inc. (f. 1974, New York)

Bache Halsey Stuart (f. 1975, New York)

Bache Halsey-Stuart Shields (f. 1977, New York)

In 1975, the Bache Group Inc. merged its brokerage subsidiaries Bache & Co. and Halsey Stuart & Co. into Bache Halsey Stuart. In 1977, the Bache Group Inc. merged with Shields Model Roland Inc.

By that time, Leslie was still chairman of the board and Harry A. Jacobs Jr. was still president, but he had also been named chief executive officer of Bache Halsey Stuart. The chairman of Shields Model Roland was Macrae Sykes, and the president and chief executive officer was H. Virgil Sherrill. The new firm was called Bache Halsey-Stuart Shields Inc. and became a subsidiary of the Bache Group Inc. Leslie was chairman of the new parent company. Jacobs became chairman and chief executive officer of Bache Halsey-Stuart Shields. Virgil Sherrill was named president.

The late 1970s continued to present challenges to the newly merged firm, but for reasons of association. During the 1970s, the firm entered into business with Nelson Bunker Hunt and W. Herbert Hunt, who were the sons of H.L. Hunt, an oil billionaire and futures speculator from Dallas, Texas. In 1977, the Hunt brothers entered into futures contracts for soybeans, which brought them under regulation of the Commodity Futures Trading Commission. In 1979, the Hunts bought silver futures contracts with financing received from financial institutions like Citibank, the First National of Dallas and the First National of Chicago. Bache & Co. also financed the Hunts' financial ventures. During this time, Bache became the takeover target by financiers like Tsai, its former member, and Samuel Belzberg. The Hunts bought Bache stock to fight off the takeover attempts, while Bache borrowed money from banks and loaned the Hunts millions of dollars to buy silver futures.

Between 1979 and 1980, however, the price of silver began to rise dramatically. The Commodity Exchange Inc. stepped in to stop the sale of futures contracts, and the price of silver dropped. The Hunts could not meet their margin calls, leading to a "Silver Crisis." The SEC suspended trading in Bache stock. Eventually, the Hunts were bailed out with a $1.1 billion loan from a consortium of 13 banks, but they were subjected to many lawsuits and a CFTC investigation, and they were eventually barred from trading on the commodity exchanges. They also filed for bankruptcy. The associations between Bache and the Hunts also almost led to the bankruptcy of Bache, had not the loan enabled the Hunts to pay back Bache for the money they had borrowed to speculate in the commodities market.

Prudential Insurance Company of America (1981)

Soon after, in 1981, Prudential Insurance Company of America, the largest insurer and the top private money manager in the United States, bought the Bache Group Inc. Bache Halsey Stuart Shields Inc. became a subsidiary of the insurance company. *The New York Times* reported that it was a "surprise deal." The acquisition of Bache allowed Prudential to "sell money market funds, mutual, tax shelters, real estate partnerships, as well as stocks and bonds, all hedges against inflation."

The firm's chairman and chief executive officer was George L. Ball, the former president of E.F. Hutton & Co. The head of the parent company was Robert Beck, a Bronx native who began working at Prudential in 1951 as an insurance agent. (Beck was the son of a supervisor of telephone operators and an Army officer. He graduated from the Bronx High School of Science and served in the US Army during World War II before graduating from Syracuse University.) In 1982, Bache Halsey Stuart Shields Inc. was renamed Prudential-Bache Securities.

Prudential-Bache Securities (f. 1982, New York)

Prudential Securities, Inc. (1991, New York)

When Beck retired in 1986, he was succeeded by Robert C. Winters, another longtime member of Prudential, who had been with the firm since 1953. During his tenure, Prudential-Bache experienced financial setbacks due to changes in tax laws that undermined Prudential's financial products and other difficulties. In 1990, Prudential-Bache decided to refocus its efforts in retail brokerage. After Ball resigned in 1991, Hardwick Simmons, who had previously been the president of Shearson's Private Client Group, became the chairman and chief executive officer of Prudential Securities. During Simmons's tenure, however, Prudential-Bache was renamed Prudential Securities, Inc. With that change, the Bache name was lost to history.

Postscript

During Simmon's tenure, Prudential Securities came under investigation by the Securities and Exchange Commission and faced many lawsuits for products, specifically limited partnerships, the firm had sold in the 1980s. The firm was censured in 1992 and fined in 1996 in a multi-state settlement. During that time, Robert Winters retired as the head of the parent company and was succeeded by Arthur Ryan, who was a former member of Chase Manhattan and Control Data Corporation.

In 2001, Prudential Insurance Co. of America demutualized and went public. That year, the firm was renamed Prudential Financial Inc. In 2002, it sold its brokerage unit to Wachovia Securities and refocused on "insurance, investments, and international insurance and investments." In 2011, however, the Jefferies Group bought the Bache name from Prudential and renamed its commodities division Jefferies Bache. In 2015, the Jefferies Group sold its Bache commodities unit and financial derivatives accounts to Société Générale. $

Susie J. Pak is an Associate Professor in the Department of History at St. John's University (New York). A graduate of Dartmouth College and Cornell University, she is the author of Gentlemen Bankers: The World of J.P. Morgan *(Harvard University Press), a Trustee of the Business History Conference, co-chair of the Columbia University Economic History Seminar and a member of the editorial advisory board of the* Business History Review. *She is also a member of the* Financial History *editorial board.*

About Where Are They Now? The "Where Are They Now?" Series traces the origins and histories of 207 of the underwriters of the 1956 Ford Motor Company IPO. The research for this series has been generously funded by Charles Royce of The Royce Funds. The Museum's "Where Are They Now?" blog can be found at: wherearetheynowblog.blogspot.com.

TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. What panic was known as the "First Great Depression" in the United States?
2. Who was the first Chinese-American to lead a Dow Jones industrials company?
3. In what year was the nation's first income tax established?
4. What Swiss immigrant served as US Secretary of the Treasury for 12 years in the early 19th century?
5. Which US President was financially ruined by the Panic of 1819?
6. What congressman, Secretary of the Treasury and senator authored or co-authored some of the most important financial legislation in American history, including the Federal Reserve Act of 1913 and the Securities Exchange Act of 1934?
7. What founder of the Federal Reserve was nicknamed "Doc" because he held a Ph.D. in Economics from Harvard?
8. How many underwriting firms are listed on the famous 1956 Ford Motor Company IPO tombstone?
9. David Rockefeller, son of John D. Rockefeller, was the Chairman and CEO of which bank?
10. What New York-based bank did Deutsche Bank acquire in 1998?


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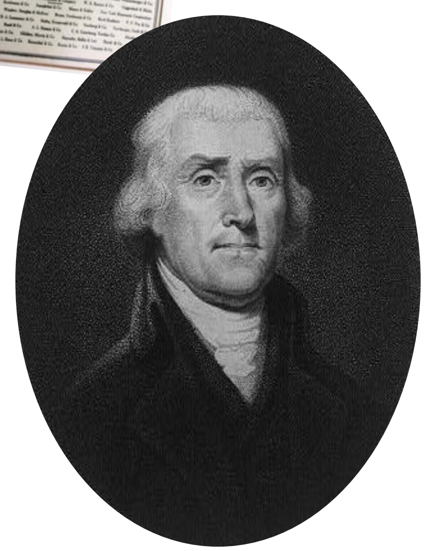

1. The Panic of 1819 **2.** Gerald Tsai **3.** 1861
4. Albert Gallatin **5.** Thomas Jefferson
6. Carter Glass **7.** Abram Piatt Andrew
8. 205 **9.** Chase Manhattan **10.** Bankers Trust

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NGC MS 64 (Green/Newman)
Only Coin Graded MS64, 1 Finer

1851 $50 Humbert Slug LE (880)
Certified by PCGS in MS 61
Uncirculated Lettered Edge Rarity

1870 CC Liberty Seated Half Dollar
Certified by NGC in MS 63
Key Date Carson City Rarity, 1 finer

1914-S $10 Indian Head Eagle
Certified by PCGS in MS 65
Superb Gem of this Tough "S" Mint

1896 $1 Morgan Dollar
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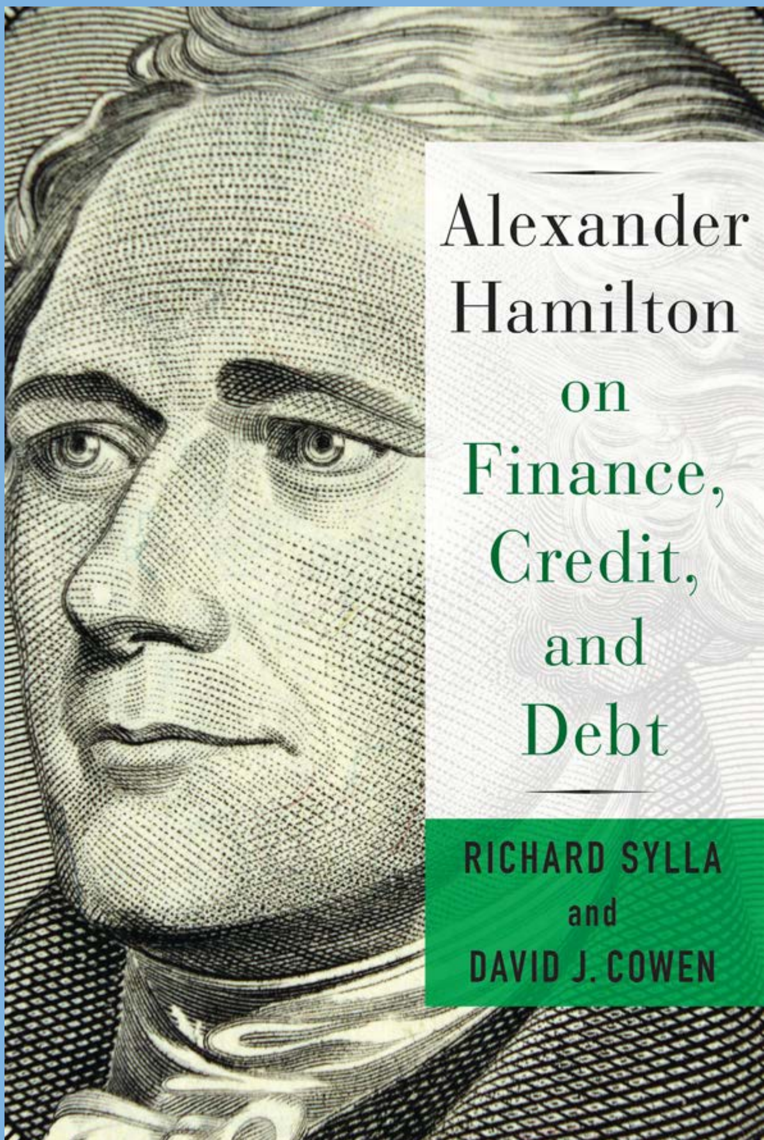
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